

ORIGINAL

OPEN MEETING



0000173171

MEMORANDUM

TO: Docket Control

FROM: The Water Policies Work Group

DATE: September 1, 2016

RE: ARIZONA CORPORATION COMMISSION INVESTIGATION INTO
POTENTIAL IMPROVEMENTS TO ITS WATER POLICIES (W-00000C-16-
0151)

Attached is a status report and a proposed order for the action items required to be presented to the Commission for its review by September 1, 2016, per Decision No. 75626, issued on July, 25, 2016. This report provides a description for the steps taken for each action item, with additional attachments as necessary for Commission review.

This matter has been included as an agenda item on the September Open Meeting scheduled for September 7 and September 8, 2016.

TMB:BB:nr/RRM

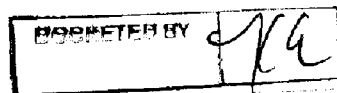
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Arizona Corporation Commission

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Arizona Corporation Commission – Generic Investigation
Docket No. W-00000C-16-0151

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**STATUS UPDATE
THE WATER POLICIES WORK GROUP
ARIZONA CORPORATION COMMISSION**

**ARIZONA CORPORATION COMMISSION GENERIC INVESTIGATION
DOCKET NO. W-00000C-16-0151**

**ARIZONA CORPORATION COMMISSION INVESTIGATION INTO POTENTIAL
IMPROVEMENTS TO ITS WATER POLICIES.**

SEPTEMBER 1, 2016

EXECUTIVE SUMMARY
ARIZONA CORPORATION COMMISSION INVESTIGATION INTO POTENTIAL
IMPROVEMENTS TO ITS WATER POLICIES
DOCKET NO. W-00000C-16-0151

On July 25, 2016, the Arizona Corporation Commission ("Commission") issued Decision No. 75626 that directed Commission Staff to work with industry representatives to develop and present information for Commission review. Further, Staff was ordered to establish a Commission Ombudsman office for small water companies, and to work with industry representatives to evaluate ways to reduce the regulatory burden on small water companies. The Decision required that certain information related to several of the policies and components thereof be made available for Commission review by September 1, 2016. This report provides an update on the status of these items, provides various documents for Commission review as directed, and makes recommendations for Commission consideration. Updates related to the Commission Ombudsman office and Water Emergency Team will be provided at a later time.

The Work Group recommends that:

1. Staff should be directed to post the Emergency Rate Case Application (set forth in Attachment A) on the Commission's website to make it available for use by utilities. Staff should also be directed to continue to look for ways of improving the efficiency of the emergency surcharge process.
2. Staff should be directed to post the Short Form Rate Case Application (as discussed in this report) on the Commission's website to make it available for use by utilities. Staff should also be directed to continue to look for ways of improving the Short Form Rate Case Application.
3. The Commission should adopt the "Materiality Guidelines" and the definitions of "viable" and "non-viable", as set forth herein, as Commission policies in order to provide guidance to Staff and to stakeholders.
4. As discussed on page 15 of this report, the Commission should determine which of the two options for the definition of "demonstrated track record" it prefers, and should then adopt that choice as a Commission policy in order to provide guidance to Staff and to stakeholders.

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BACKGROUND

On July 25, 2016, the Arizona Corporation Commission (“Commission”) issued Decision No. 75626 that directed Commission Staff to work with industry representatives to develop and present information for Commission review.

Further, Staff was ordered to establish a Commission Ombudsman office for small water companies and to work with industry representatives to evaluate ways to reduce the regulatory burden on small water companies.

The Decision required that certain information related to several of the policies and components thereof be made available for Commission review by September 1, 2016. This report provides an update on the status of these items and provides various documents for Commission review as directed.

THE WATER POLICIES WORK GROUP

The Water Policies Work Group (“Work Group”) consists of members of Commission Staff in the Hearing and Utilities Divisions, Residential Utility Consumer Office (“RUCO”), the Water Utilities Association of Arizona (“WUAA”), the Rural Water Association of Arizona (“RWAA”), along with representatives from several water and wastewater companies including Arizona Water Company, EPCOR Water Arizona, Global Water, and Valley Utilities Water Company. The process was very open and collaborative. Input from all parties involved was incorporated into the end products that are being presented.

EMERGENCY SURCHARGES

The Work Group understands the desire of the Commission to lessen the regulatory obligations on smaller water companies while still protecting customers’ interests. One policy that addresses this desire is the direction to facilitate an emergency surcharge process.

Class C, D or E water or wastewater utilities that face a water supply emergency may request an emergency surcharge. Decision No. 75626 directed the Work Group to evaluate by September 1, 2016, the Commission’s current processing times for Emergency Surcharges, and to develop recommendations to allow a water or wastewater utility to receive a Commission vote on an emergency surcharge within 30 days and within 60 days after filing an initial surcharge application.

To meet this requirement the Work Group gathered input from the Hearing Division on a draft document of the Emergency Rate Case Application. This document was further refined by discussions of the Work Group. See Attachment A for the recommended processes that are the results of that group effort and the notice that would be required to be sent to customers at the time the applicant asks Staff to open a docket. Attachment A only specifically identifies the 30 day process;

however, language was added to the attached document that, due to the unique circumstances of each case, and for good cause, any of the parties may request an extension of up to an additional 30 days.

The Work Group recommends that the Commission adopt the Emergency Surcharges rate case process as detailed in Attachment A and discussed in this Staff report.

SHORT FORM RATE APPLICATION

Another policy facilitating the reduction of the regulatory burden on small water companies involves making available to smaller companies, some adjustor mechanisms that some larger utilities have been granted. These policies include making changes to the Short Form Rate Application currently available to small water companies to assist with the rate case process. Specifically, Staff was directed to update the Short Form Rate Application to include the schedules necessary for calculating purchased power, purchased water, and system improvement surcharges, and to include a formulaic method that will allow small utilities to calculate a Conservation Adjustment. Further, Staff was directed to revise the questions in the current application to better reflect what is actually needed to process a small company rate case.

The Work Group conducted an evaluation that included the information currently requested, any missing information whose inclusion would make the process more efficient, how to make the process easier in general, and how to incorporate the specific features ordered in the Decision. Through the collaborative effort of the Work Group, a Short Form Rate Application has been developed that includes all of the changes ordered in the Decision plus some additional changes that are intended to streamline the process, as discussed in detail below.

In its current format, the Short Form Rate Application is available only as a Word/PDF document. During the course of the evaluation, it was determined that in its current format, the application can be somewhat cumbersome and overly burdensome. Specifically, it was difficult to add columns where needed, some information between pages was duplicative, requesting all of the invoices for each of the expense items in the application was unduly burdensome, and some of the instructions were ambiguous, so much so that it wasn't always clear what was being requested.

The Work Group recommends that the Commission make available an Excel spreadsheet that can be downloaded and completed. This would be the first and biggest step to making the process more efficient as discussed further throughout this summary. We believe that addressing the required modifications in a Word or PDF document would likely make it more difficult for small water companies to follow and/or use. Further, there are some efficiencies inherent in Excel that are not available in Word or Adobe. We understand that some of the smaller water companies may not have extensive experience in Excel so the Work Group recommends that once the changes are in place a version of this spreadsheet should be offered in a fillable PDF/Word format as an alternative.

In addition to the summary which explains all the changes that the Work Group is recommending to the Short Form Rate Application, there is an accompanying Excel workbook available for Commission review. Attachment B is the modified version of the Word document for

the Short Form Rate Application. Attachment C contains the schedules for the recommended adjuster mechanisms.

The Work Group began this process by converting all of the tables included in the existing Short Form Rate Application into schedules in an Excel workbook. The schedules include links throughout which minimize the number of required, and repeat inputs. There has also been some additional functionality built-in as detailed below, but in general this includes features such as drop-down menus and automatic formulas.

To make the process more efficient, the Work Group recommends tying the Short Form Rate Application to the Annual Report. Combining this information makes for a smoother transition from the Annual Report to a rate case filing since the majority of the information required in the Annual Report is also requested in the Short Form Rate Application¹. The Work Group recommends developing parameters in the annual report form that would alert the filing company that it may want to consider filing a rate case².

While the Work Group recommends the use of Excel, we are not recommending that Excel be used exclusively. Some of the information in the application logically still belongs in the current format, such as the general instructions, the checklist, background information, etc. See Attachment B for the recommendation of the Work Group.

The Work Group also recommends that the Commission review the Short Form Rate Application as presented for review and provide further guidance for the Work Group on any additional modifications that may be necessary.

Detailed Changes to the Overall Short Form Rate Case Application:

First, the number of copies required throughout the application process for smaller companies has been reduced to two, as discussed in the June 14, 2016 Staff Meeting. Some of the information being requested in the checklist has been clarified, including a recommended materiality threshold of \$250 for the operating expense invoices being requested. This materiality threshold is paramount for reducing the amount of time and resources spent by small utilities in preparing rate applications, and is consistent with the Standard of Materiality discussed later. The definition of an affiliated relationship has also been expanded, and the instructions have been updated to reflect all of the recommended changes³. A simplified example illustrating how income taxes are calculated has also been included.

Specific Changes to the Short Form Rate Case Application by Schedule:

¹ The Work Group estimates that 70-80 percent of the information required in the Annual Report is also required in the Short Form Rate Application, as can be seen in the provided electronic version of the application.

² For example, a Company operating at a net loss. This functionality has yet to be built into the workbook.

³ For ease, instructions have also been imbedded on each schedule of the workbook that are applicable for that particular schedule.

The detailed changes as discussed in this section were made for efficiency purposes coupled with addressing the requirements of the Decision.

Title sheet – This is a new sheet that contains inputs for the plant in service, the accumulated depreciation and the fully depreciated plant balances that were approved in the last rate case. This information is then linked throughout as necessary. Having these inputs on the title page contributes to eliminating the need for any inputs on schedule 4 (Plant Summary) and schedule 5 (Utility Plant in Service).

Schedule 1: Balance Sheet – This was formerly pages 24-25 (now page 3). Added formulas and a way to flag for the Company's attention if the balance sheet does not in fact balance.

Schedule 2: Water Company Plant Description – This was formerly pages 17-18 (now page 5). No other changes.

Schedule 3: Plant Summary – This was formerly page 15 (now page 7). No longer requires any input, see the Title page comments.

Schedule 4: Utility Plant in Service – This was formerly page 16 (now page 8). No longer requires any input, see the Title page comments.

Schedule 5: Water Use Data Sheet – This was formerly page 19 (now page 9). Added some of the information requested on the Annual Report to be consistent.

Schedule 6: Bill Count Summary – This was formerly pages 30-34 (now page 10). Removes the quarterly reporting requirement. Links to Schedule 7, and to the proof of revenue calculations.

Schedule 7: Current and Proposed Rates – This was formerly page 9 (now page 11). This schedule includes a drop-down box for the meter size and customer type that will allow the Company to select from a list of options. These selections will then link to the commodity charges section at the bottom of this schedule, the bill counts (Schedule 14), and the proof of revenue (hidden but linked to the income statement Schedule 8). In the existing Short Form Rate Application, it isn't clear that the rate information is required for all meter sizes and types, and is often missing when the Company has more than one meter size/type that it serves. These changes correct for this.

Schedule 8: Current and Proposed Service Charges – This was formerly page 11 (now page 12). Included now are the service line and meter charges that Staff typically recommends. These are for illustrative purposes only and are not part of what will be printed as part of the application for the filing.

Schedule 9: Income Statement – This was formerly page 20 (now page 13). Added columns for the Company proposed adjustments. Also added a link to the proof of revenue which follows Staff's typical methodology for calculating revenues using the bill counts. This is intended to assist the Company with the accuracy of its filing and will hopefully speed up the sufficiency determination,

which will also speed up the resolution of rate cases and reduce the amount of time between when the Company files the rate case and the date when rates become effective.

Schedule 10: Calculation of Depreciation Expense – This was formerly page 22 (now page 15). Reduced the number of required inputs by linking to other schedules and the Annual Report. Also input the depreciation rates that Staff typically recommends as a reference for the Company. This schedule will now support the depreciation expense on a going forward basis that reflects the test year plant balances.

Schedule 11: Pro Forma Additions/Subtractions – Added this schedule, which will allow the Company to include pro forma adjustments along with explanations to the income statement (linked to Schedule 9).

Schedule 12: Pro Forma Property Tax – Also added a pro forma schedule specific for property taxes that will reflect the property taxes using the formula approach, under the Company proposed revenues (linked to Schedule 9).

Schedule 13: Customer Notice – The existing version of the Short Form Rate Application requires that the Company notice its customers on the same day that the application is filed. The Work Group discussed this requirement and determined that it does not need to be done on the same day and that it would likely be easier for small utilities if it weren't. Therefore we recommend that the notice be sent out by the Company as soon as sufficiency is issued. This requirement would be consistent with the process for larger utilities. The notice was, and still is the last page in the document.

Schedule 14: Free Cash Flow – Added a schedule that links to the other schedules that will show the free cash flow of the Company. This will assist the Company with setting the proposed revenue requirement.

Schedule 15: Water Conservation Adjustment – Added a schedule that will calculate a water conservation adjustment (utilizing a formulaic method) given the average usage per customer in the test year as compared to a prior period(s) (Annual Reports or test year in the last rate case).

Schedule 16: Purchased Water Adjustor Mechanism ("PWAM") – As directed we added a PWAM schedule. This is a more simplistic model for small water companies that is based on the more complex models that have been approved by the Commission in rate cases for larger utilities.

Schedule 17: Purchased Power Adjustor Mechanism ("PPAM") – As directed we added a PPAM schedule. This is a more simplistic model for small water companies that is based on the more complex models that have been approved by the Commission in rate cases for larger utilities.

Schedule 18: Systems Improvement Fund Surcharge ("SIFS") – As directed we added a SIFS Schedule. This is a version of the Systems Improvement Benefit ("SIB") surcharge that has been approved by the Commission in rate cases for larger utilities. This schedule is intended for Class D and E companies with a large enough rate base for the revenue requirement to be set using a rate of return. An option discussed in the Decision, for those companies with very little or negative rate base,

is an Emergency repair and replacement fund. The Work Group believes that the particulars of this surcharge is in part a policy issue to be decided within a rate case, that could be coupled with another directive before the Work Group, specifically that of the development of a standard minimum operating margin.

Schedule 19: Checklist – Added a copy of the expense items portion of the checklist (mirroring the word/PDF version of the application) that requires copies of invoices. Also added a template for each expense item that companies can use in putting together their applications.

Work paper 1: Plant Additions and Retirements by Year – This was formerly page 14. The Work Group recommends that instead of this being a schedule that is included with the filing this be included as a work paper that will be made available for Staff's audit. The number of pages that would be required to print would vary depending on the number of years since the last rate case, but to include this as a work paper instead would reduce the number of pages that are printed.

Work paper 2: Plant Accumulated Depreciation – This is a new addition that requires no input by the Company but can be used to assist in the filing by calculating the accumulated depreciation as a check figure. This work paper is linked to work paper 1.

Work paper 3: Advances in Aid of Construction – This was formerly page 27. In addition to recommending that this now be a work paper instead, we have added an input for the balance of AIAC that was approved in the last rate case. We also split out the different categories of AIAC to make the process simpler by reducing the need for future data requests for this information. This work paper is linked to work paper 1.

Work paper 4: Gross Contributions in Aid of Construction – This was formerly page 28. In addition to recommending that this now be a work paper instead, we have added an input for the amortization of CIAC. This work paper is linked to work paper 1.

Work paper 5: Supplemental Financial Information – This was formerly page 26. No changes other than to include as a work paper. This work paper is linked to the Annual Report.

The Work Group realizes that the Short Form Rate Application will evolve over time, and that flexibility is key in developing a product that will be beneficial for all parties involved. In addition to the Work Group, the Excel version of the application being presented was also reviewed by a representative of an ownership group that operates four small Class D and E water companies, and his input was incorporated. The Work Group intends for the application to be reviewed by additional small water companies and operators to solicit additional input. Another crucial step in the evaluation process will be working with a small water company to file an actual rate application utilizing the Excel version. The Work Group anticipates that these additional steps will occur at some as yet to be determined point in the future.

The Work Group is also still working through the process of a Short Form Rate Application for wastewater companies. The question was posed, "Should there be a short form application for wastewater?" The Work Group's answer is that there should be a version created specifically for

wastewater utilities; however, because there are far more regulated water utilities the focus has been on updating the water application. As such we recommend that the Commission be given the opportunity to review the recommended changes as presented for the water application. Once further direction is given then the Work Group can develop a similar wastewater application.

ESTABLISH STANDARD OF MATERIALITY

Another item detailed in the Small Water Company Rate Case Issues section addressed materiality. This policy states that Staff's audits of small water companies should focus on issues likely to materially impact rates. It also states that any accounting issues that have minimal impact on rates need not be addressed in a small water utility rate case. As such, the Decision directs Staff to develop a standard of materiality that takes into account rate impacts. The Work Group developed the following materiality guidance for the Commission's review and consideration.

Materiality Guidelines:

As trained accountants and auditors, Staff members have an academic understanding of "materiality." What is deemed to be material in one set of circumstances may be clearly immaterial in another set of circumstances. When exercising regulatory auditor discretion, Staff needs to be mindful of both the big picture and of any applicable policy statements or positions of the fact finder. The overriding consideration should be whether a particular data request or adjustment will materially change the revenue requirement. The "Materiality Levels by Class" chart below provides guidance on what sort of data requests and adjustments are appropriate in different circumstances.

Staff is expected to think and utilize reason in applying these materiality guidelines and in reaching recommendations. However, there are four general guidelines that should be specifically applied and followed when assessing materiality and when developing recommendations. These four general guidelines are discussed below. Likewise, an auditor's decision to pursue additional discovery should be undertaken only after giving specific consideration to the materiality of the issue being evaluated. That is, if the answer to a data request is not likely to materially affect the revenue requirement, then the data request should not be sent unless there is some other clearly articulated reason for needing the information.

Four General Guidelines:

- a. Always consider the magnitude of the adjustment under consideration to the big picture. Is the total underlying rate increase request only \$50,000? If so, then an adjustment of \$2,000 is probably material whereas a possible adjustment of \$500 is probably not material enough to recommend. The following table provides some specific guidance:

Material Levels by Class

	Revenue	Representative		Expense		Rate Base	
		Revenue	Expenses	Data Request Threshold	Adjustment	Data Request Threshold	Adjustment
Class C	1 to 3 Million	\$2,000,000	\$1,700,000	\$400	\$2,000	\$1,000	\$5,000
Class D	.250 to 1 Million	625,000	562,500	250	1,000	500	3,000
Class E	< 250,000	125,000	112,500	250	250	500	1,000

Data Request Threshold = Default minimum level of individual expenditures that would be reviewed, e.g. the level above which copies of invoices would be provided.

Adjustment = Default minimum amount required to recommend an adjustment to an individual account.

- b. If the adjustment under consideration is the result of a companion adjustment, then capture the smaller adjustment in order to assure consistency and completeness in Staff's overall position. For example, if Staff proposes a \$5,000 adjustment to payroll, it is likely that a companion adjustment will also be needed to applicable payroll taxes. In this instance, the accompanying adjustment may only be \$400. The amount of this accompanying adjustment may be too small to consider making as a separate recommendation, but it is none-the-less important to include the accompanying adjustment to assure consistency and completeness in Staff's overall recommendation. There is a secondary approach to these companion adjustments that warrants discussion. If the companion or synchronizing secondary adjustment is truly immaterial, Staff may elect to omit this secondary adjustment. Under such circumstances, it is crucial that it is noted in testimony or in the Staff Report that Staff is choosing to pass on this adjustment because of the immaterial magnitude of the secondary adjustment.
- c. If the net calculable dollar value of two or more adjustments is immaterial, but the individual components are by themselves material, then the size of the net value is not the deciding factor. However, it is very important to make it clear in testimony or in the Staff Report, that it is the Commission's consideration of the individual components that is important and that focus should not be on the net dollar value of the adjustments. For example, a net impact of \$300 to repairs and maintenance expense would appear to be an immaterial adjustment; however, if this net value is actually composed of one recommended increase of \$90,000 and a recommended decrease of \$89,700 then the issues being addressed are clearly material.
- d. Always consider – "would a fact finder or other party (such as the Utilities Division Directors, Administrative Law Judges or Commissioners) to the docket, agree that the

Staff decision to pursue or not pursue a recommendation in a particular area was reasonable?” From a discovery perspective was the request for more support from the applicant warranted from a materiality point of view? For example, would the fact finder conclude that **it appears** that Staff chose to ignore possible minor adjustments only when the adjustments went in the filing utility’s favor? Perception of the decision and actions must always be considered.

Additional Ratemaking Factors Influencing Materiality Decisions:

Staff also has a set of additional ratemaking factors that will have relevance when gauging materiality.

Rate Base:

The Staff regulatory auditor should keep in mind that adjustments to a utility’s rate base only impact the utility’s annual revenue requirement by the utility’s ROR multiplied by the rate base adjustment (plus income tax gross up.) For example, a rate base adjustment of \$1,000 will only change revenue requirement by \$100 if the ROR is 10 percent (this example ignores possible income tax considerations).

Operating Income – Revenues and Expenses:

Adjustments to revenue and expense have a dollar for dollar impact to the utility’s annual revenue requirement, again ignoring any income tax considerations. That is, a proposed adjustment of \$1,000 to salaries expense will change the utility’s annual revenue requirement by \$1,000 (up or down).

Policy Considerations:

Except in cases when the impact of an adjustment is extremely small, the auditor should always capture adjustments that relate to a general Utilities Division policy.

Responding to Filing Utility Proposed Adjustments:

A filing utility often sets the materiality threshold in a case. For example, if a filing utility proposes an adjustment of \$100, Staff must still evaluate this proposal. However, Staff should not feel obligated to make adjustments to such a small amount even if small errors in the Company’s supporting calculations are found.

Seek Additional Guidance When Necessary:

If Staff has doubts whether or not to pursue an adjustment or issue discovery, due to materiality, it may be best to consider just passing on the adjustment, or at least to discuss the matter with a manager.

Proof of Revenues:

When it comes to ensuring that the rate design either proposed by the filing utility or by Staff, in fact, generates the annual revenue target, materiality considerations must be approached judiciously. While input from the Staff Manager may be needed in certain cases, Staff generally requires the proof of revenues (associated with existing or proposed rate designs) to be very close to targeted revenues. The reason for this is simple. Annual revenues recorded are a mathematical function of the ACC-approved billing rates and the utility's billing determinants⁴.

Staff should give proper consideration to any reconciling evidence provided by the utility (such as meter reading problems which required manual corrections to customer bills, or even possible cycle billing considerations). But, generally as noted, it should be possible to reconcile a rate design to within 1 percent of targeted revenues.

Rate Filing Sufficiency Reviews:

Except for materiality considerations related to Staff's proof of revenue analysis, Staff should not spend time trying to work through either the reasonableness of proposed adjustments or the materiality of company proposed adjustments during Staff's rate filing sufficiency reviews. The focus of such reviews is on the completeness of the filing (does the rate filing meet the ACC's minimum filing requirements for this utility?)

Conclusion:

Staff is to present a balanced and reasonably developed financial picture. Staff's recommendations should reflect a balanced consideration of the filing and the recommendations should position the filing utility where it can have a reasonable opportunity to pay its ongoing expenses while also earning a reasonable rate-of-return and income.

The Work Group recommends that the Commission adopt the Standard of Materiality as put forth in this Staff report.

DEFINE VIABLE AND NON-VIABLE

Prior to implementing the Commission "Policy Regarding Direct Incentives for Acquisitions" or the "Policy Regarding the Acquisition of Viable Systems", the Commission directed the Work

⁴ Billing determinants would include the monthly number of customers and the respective monthly usage levels for each customer class.

Group to define “viable” and “non-viable”. This group was also asked to evaluate and define “a demonstrated record of acquiring and improving the service provided to the customers of non-viable water systems” and couple those metrics with recommended ROE adders.

To meet this mandate the industry members of the Work Group created draft documents of the definitions that served as the genesis for future revisions and guided the various meetings where these definitions were discussed. The Work Group diligently and collaboratively worked together to develop the following definitions on which all parties agree. The following information is the result of this process.

Definitions of Viable and Non-Viable Pertaining to Small Water and Wastewater Utilities:

The United States Environmental Protection Agency (EPA) has defined viable water systems as systems that have, “the technical, financial, and managerial capability to consistently comply with current and prospective performance requirements.”⁵ The Arizona Corporation Commission used a similar definition in its Policy Statement No. 5 of Decision No. 75626, dated July 25, 2016, concerning the consolidation of small water and wastewater utilities.

A viable water and/or wastewater utility is defined as one that:

1. Maintains the managerial, technical and financial capabilities to safely and adequately operate; and
2. Is currently in compliance with all Arizona Department of Environmental Quality, Arizona Department of Water Resources, and Arizona Corporation Commission rules and orders; and
3. Will be able to meet other requisite regulatory requirements on a short and long-term basis.⁶

A non-viable water or wastewater utility is defined as one that:

1. Lacks and is unable to acquire the managerial, technical and/or financial capabilities to safely and adequately operate; or
2. Is currently not in compliance or is unable to achieve compliance with Arizona Department of Environmental Quality, Arizona Department of Water Resources,

⁵ EPA, Methods for Assessing the Viability of Small Water Systems: A review of Current Techniques and Approaches, August, 1995. Located at: <http://nepis.epa.gov/Exec/Query/20001RR9.TXT?ZyActionD=ZyDocument&Client=EPA&Index=1995+Thru+1999&Docs=&Query=&Time=&EndTime=&SearchMethod=1&TocRestrict=n&Toc=&TocEntry=&QField=&QFieldYear=&QFieldMonth=&QFieldDay=&IntQFieldOp=0&ExtQFieldOp=0&XmlQuery=&File=D%3A%5Czyfiles%5CIndex%20Data%5C95thru99%5C%5C%5C00000001%5C20001RR9.txt&User=ANONYMOUS&Password=anonymous&SortMethod=h%7C-&MaximumDocuments=1&FuzzyDegree=0&ImageQuality=r75g8/r75g8/x150y150g16/j425&Display=p%7Cf&DefSeekPage=x&SearchBack=ZyAction1&Back=ZyActionS&BackDesc=Results%20page&MaximumPages=1&ZyEntry=1&SeekPage=x&ZyPURL#>

⁶ W-00000C-16-0151, Decision No. 75626, at page 19 of Attachment No. 1, lines 6-11.

- and/or Arizona Corporation Commission rules or orders or is unable to achieve such compliance without managerial, technical, or financial assistance; or
3. Will not be able to meet other requisite regulatory requirements on a short- or long-term basis.

When making the determination of viability or non-viability, the Commission will consider all of the relevant circumstances of the case and will determine the question of viability or non-viability based on all of the circumstances at the time of the CC&N transfer.

Non-viability in the short or long-term is different from failure where a utility has deteriorated to the point where it presents a danger to public health and safety, but the same types of facts may indicate a utility has become non-viable before it reaches a failed state. Dockets in which 1) the ACC Staff has filed for the appointment of an interim manager and/or operator or 2) water or wastewater utilities have filed for emergency rate relief, are indicative of a water or wastewater utility that is susceptible to failure.

The following is not an exhaustive list, but are examples of factors that may be present when a utility is non-viable. Any one of these factors, or any combination of factors could be sufficient to show that a utility is non-viable.

- The utility lacks and is unable to acquire the managerial, technical and/or financial capabilities to:
 - Perform necessary operations and maintenance to assure an adequate, safe, and permanent water supply and/or adequate, safe treatment of wastewater which may include:
 - Maintaining and improving essential equipment.
 - Properly addressing growth in excess of the current capacity of the utility.
 - Failing to properly address any needs for significant capital improvements due to aging infrastructure and an inability to attract investment or obtain financing for needed improvements.
 - Contaminants in excess of drinking water or wastewater standards.
 - Failure to consistently or properly perform required testing.
 - Failure to ensure compliance with new drinking water or wastewater treatment standards in effect or going into effect.
 - There is a lack of adequate staffing and/or certified operators due to the inability of the utility to attract, hire, and retain engineers, attorneys, accountants, etc. to properly operate the utility.
 - A failure to file for regular rate increases and/or the inability to hire experts that may be needed to assist with processing rate cases, that contributes to rates that fail to cover

- expenses and liabilities, such as required repairs and maintenance, or to cover debt service requirements.
 - Is unable or unwilling to ensure adequate supply or treatment capabilities demonstrated by:
 - Insufficient or lack of storage leading to water outages or repeated water shortages.
 - The frequent triggering of curtailment tariffs.
 - The utility relying on hauling or otherwise purchasing water on an emergency basis to meet demand.
 - Implementation of a moratorium on new service connections or the inability to add new service connections due to low supplies or pressure.
 - Issues with billing such as a failure to bill (i.e. family members, friends, acquaintances, etc.), sporadic billing, or inaccurate billing.
 - The utility is in bankruptcy or is considering bankruptcy.
 - The owner and/or operator have walked away from the utility.
 - There isn't a clear plan in place in the event of an owner passing away or becoming unable to continue running the utility.
 - Inability or unwillingness to respond to complaints or requests for service.
- Is not in compliance with Arizona Department of Environmental Quality, Arizona Department of Water Resources, and/or Arizona Corporation Commission rules or orders such as:
 - Outstanding violations, a history of violations; and/or the inability or unwillingness to correct violations.
 - Existing mandates for significant capital improvements such as new treatment systems and an inability to meet the mandates.
 - Failure to obtain approvals to construct, approvals of construction, discharge authorizations or other required permits.
 - The utility is not current on sales and/or property taxes.
 - Will not be able to meet other requisite regulatory requirements on a short or long-term basis:
 - The utility's Certificate of Convenience and Necessity has been revoked.
 - Accounting systems are not kept in accordance with required standards.
 - There is a failure to properly complete and/or submit annual reports to the Utilities Division.
 - Appointment of an interim manager or operator.
 - The utility has filed an application for interim rates or emergency rates.
 - The setting of adequate rates would be unduly burdensome with the existing customer base.

Class C, D, and E utilities have fewer customers and consequently lower revenues than do Class A and B utilities, yet they generally must meet all the same financial, managerial and technical requirements as the larger companies. As a result, Class C, D and E utilities may be particularly susceptible to being non-viable for either the short or long term.

A determination that a utility is non-viable shall be used only in the assessment of whether acquisition incentives are appropriate should that utility be acquired. A non-viable determination is not intended to create new compliance burdens on a utility that otherwise would not exist. The intent here is to help non-viable utilities (and their customers), not to punish these companies simply because they have been designated as non-viable.

The Work Group recommends that the Commission adopt the definitions of Viability and Non-Viability as put forth in this Staff report.

Demonstrated Track Record

Another key factor in the acquisition process is the established demonstrated track record. While the Work Group agrees on the definitions of viable and non-viable, there are valid yet differing points of view as to whether the definition of a non-viable utility can be applied retroactively. Ultimately the Work Group agreed that this was a policy decision best left to the Commission, and presents the following two options for the Commission's consideration.

A demonstrated track record of acquiring and improving the service provided to customers of nonviable water systems is defined as:

Option 1 – No time restriction

A utility that has acquired multiple non-viable water and/or wastewater utilities and that has made reasonable, prudent and timely investments, which resulted in the acquired utility becoming viable. The acquiring utility shall bear the burden of demonstrating a track record. In each case, the Commission will consider all of the relevant circumstances in determining whether a track record of acquiring and improving the service provided to customers of non-viable water and/or wastewater utilities has been demonstrated.

Option 2 – Limited to acquisitions post decision

A utility that has acquired multiple non-viable water and/or wastewater utilities since the ACC issued Decision No. 75626⁷, and that has made reasonable, prudent and timely investments, which resulted in the acquired utility becoming viable. The acquiring utility shall bear the burden of demonstrating a track record. In each case, the Commission will consider all of the relevant circumstances in determining whether a track record of acquiring and improving the service provided to customers of non-viable water and/or wastewater utilities has been demonstrated.

⁷ Effective date of Decision No. 75626 is July 25, 2016.

The Work Group did not attempt to couple these metrics with the recommended ROE adders; instead, it recommends that the chosen definition be coupled with ROE adders as part of the Cost of Capital reform that the Work Group is still in the process of completing.

RULEMAKING

The Decision orders Staff to commence a rulemaking to consider the following amendment to Arizona Administrative Code (“A.A.C.”) R14-2-803.D: “A notice of intent under this section is not required when the reorganization of an existing Arizona water or wastewater public utility holding company is due to the purchase of the shares (or merger of) a Class D or E water or wastewater utility.” On August 31, 2016, Staff opened docket RU-00000A-16-0300, to initiate the process.

RECOMMENDATIONS AND STATUS SUMMARY

Following are recommendations:

1. Staff should be directed to post the Emergency Rate Case Application (set forth in Attachment A) on the Commission’s website to make it available for use by utilities. Staff should also be directed to continue to look for ways of improving the efficiency of the emergency surcharge process.
2. Staff should be directed to post the Short Form Rate Case Application (as discussed in this report) on the Commission’s website to make it available for use by utilities. Staff should also be directed to continue to look for ways of improving the Short Form Rate Case Application.
3. The Commission should adopt the “Materiality Guidelines” and the definitions of “viable” and “non-viable”, as set forth herein, as Commission policies in order to provide guidance to Staff and to stakeholders.
4. As discussed on page 15 of this report, the Commission should determine which of the two options for the definition of “demonstrated track record” it prefers, and should then adopt that choice as a Commission policy in order to provide guidance to Staff and to stakeholders.

Under the guidance of Decision No. 75626, the Work Group has taken steps to define, refine, propose, and implement actions which will significantly improve the regulatory process surrounding small water companies in Arizona. With further direction from the Commission on the processes outlined above, the Work Group will continue forward with making improvements.



ARIZONA CORPORATION COMMISSION

REQUIREMENTS TO PROCESS AN EMERGENCY RATE CASE APPLICATION WITHIN 30 DAYS

One or more of the following conditions must exist before a Company files an emergency rate application:

- A sudden change brings hardship to the Company;
- The Company is insolvent; or
- The condition of the Company is such that its ability to maintain service pending a permanent rate determination is in serious doubt.

Once a Company determines that it qualifies for emergency rate relief, it should contact the Commission's Utilities Division ("Staff") to ask Staff to open a docket. Once a docket is opened, the Company should mail a notice to customers informing them of the Company's intent to request an emergency rate case prior to filing the application. The notice must include information on the emergency request as well as the location customers can find additional information regarding the pending case.

The application must contain the following information/documentation:

- A narrative cover sheet(s) devoted to the explanation of the emergency condition(s) present in the Company;
- A requested amount of dollars to be recovered in the emergency rate;
- An emergency rate charge to apply to customers;
- A method or mechanism to recover the requested amount of dollars;
- A detailed breakdown of the system repairs, if any, necessary to alleviate the emergency condition. To include information such as size, quantity, capacity, and condition of all repair areas, and a listing for the cost of labor per repair item;
- A copy of an estimate of the cost of repairs;
- Certification that notice of the emergency rate application has been mailed to customers, in a form acceptable to Staff; and
- A copy of the notice mailed to customers.

For Class C, D, and E utilities, the Company must file the original emergency rate application, along with one (1) hard copy, with Docket Control, 1200 West Washington Street, Phoenix, Arizona, 85007. (Class A and B utilities are required to file an original and fifteen (15) copies.)

The Commission's Hearing Division will schedule a Procedural Conference to occur within five (5) business days of the filing of the application to discuss hearing dates and other procedural issues. The Administrative Law Judge ("ALJ") assigned to the matter will set a hearing date as soon as possible based on the availability of the parties and their ability to prepare their respective cases for presentation at the hearing. The ALJ will also direct the Company to work with Staff to provide notice of the

hearing date by means of posting notice in a conspicuous location within the affected communities, emailing notice to customers, and/or posting on the Company's website (or by other appropriate means), to allow an opportunity for customers to attend the hearing and provide public comment.

At the hearing, the Company and Staff (and any intervenors) will provide verbal testimony to present their positions and analysis regarding the Company's application. In most circumstances, Staff will not provide written documents or schedules in advance of the hearing. At the conclusion of the hearing, the ALJ will take the matter under advisement and issue a Recommended Opinion and Order ("ROO") within one week. The ROO will require, among other things, that the Company file a permanent rate case application by a specified date set by the Commission anywhere from six to 24 months of the Commission's Decision on the emergency rate application; and that the rates approved by the Commission are subject to customer refund in the permanent rate case.

Depending on the Commission's Open Meeting schedule, the emergency rate application may be decided by the Commission within 30 days. However, due to the unique circumstances of each case, the requirement to process the emergency rate case within 30 days may be extended to within 60 days at the request of the Company or Staff, or on the Commission's own initiative, for good cause.

PUBLIC NOTICE OF THE APPLICATION OF <ABC WATER COMPANY>
FOR AN EMERGENCY RATE INCREASE
(DOCKET NO. <INSERT DOCKET NUMBER>)

On <insert month and day, year> ("<ABC WATER COMPANY>" or "Company") filed with the Arizona Corporation Commission ("Commission") an Application for an emergency rate increase. The Company claims that it is entitled to emergency rate relief because <insert explanation of the emergency condition>. The Company estimates that it will incur \$ _____ in costs to alleviate the emergency condition. The Company is requesting authorization to recover \$ _____ in emergency rates by implementing a monthly surcharge in the amount of \$ _____ per customer.

The Commission's Utilities Division ("Staff") is in the process of reviewing and analyzing the Application. Neither Staff nor any intervenor(s) has yet made any recommendation regarding the Company's request. The Commission is not bound by the proposals made by the Company, Staff, or any intervenor(s), and the Commission may approve the amount of the request, modify the amount higher or lower, or deny the request.

If you have any questions concerning how the Application may affect your bill or have other substantive questions about the Application, you may contact the Company at: <Company to insert name, address, telephone number, and email address for customer contacts concerning the Application>.

How You Can View or Obtain a Copy of the Application

Copies of the Application are available from <Company to insert how and where available>; at the Commission's Docket Control Center at 1200 West Washington Street, Phoenix, Arizona, during regular business hours; and on the Commission's website (www.azcc.gov) using the e-Docket function.

Arizona Corporation Commission Public Hearing Information

The Commission will hold a full public hearing on this matter. The Commission's Hearing Division will schedule a procedural conference to occur within five business days of the filing of the Application in order to set a public hearing date and establish other procedural requirements.

The Company will provide notice of the hearing date by means of posting notice in a conspicuous location within the affected communities, emailing notice to customers, and/or posting on the Company's website (or by other appropriate means), to allow an opportunity for customers to attend the hearing and provide verbal public comment.

Public comments will be taken on the first day of the hearing. Written public comments may be submitted at any time by mailing a letter referencing **Docket No. <insert docket number>** to Arizona Corporation Commission, Consumer Services Section, 1200 West Washington, Phoenix, AZ 85007, or by submitting comments on the Commission's website (www.azcc.gov) using the "Submit a Public Comment for a Utility" function. If you require assistance, you may contact the Consumer Services Section during regular business hours at 602-542-4251 or 1-800-222-7000.

About Intervention

The law provides for an open public hearing at which, under appropriate circumstances, interested persons may intervene. An interested person may be granted intervention if the outcome of the case

will directly and substantially impact the person, and the person's intervention will not unduly broaden the issues in the case. Intervention, among other things, entitles a party to present sworn evidence at hearing and to cross-examine other parties' witnesses. **Intervention is not required if you want to appear at the hearing and provide public comment on the Application, or if you want to file written comments in the record of the case.**

To request intervention, you must file an **original plus one hard copy** (if the application is for a Class A or B utility, an original plus 13 hard copies are required) of a written request to intervene with Docket Control, 1200 West Washington Street, Phoenix, AZ 85007, no later than <Company to insert date 5 business days following the filing of the Application>. You also **must** serve a copy of the request to intervene on each party of record on the same day that you file the request to intervene with the Commission. **Information about what intervention means, including an explanation of the rights and responsibilities of an intervenor, is available on the Commission's website (www.azcc.gov) using the "Intervention in Utility Cases" link.** The link also includes sample intervention requests.

If you choose to request intervention, your request must contain the following:

1. Your name, address, and telephone number, and the name, address, and telephone number of any person upon whom service of documents is to be made, if not yourself;
2. A reference to **Docket No. <insert docket number>**;
3. A short statement explaining:
 - a. Your interest in the proceeding (e.g., a customer of the Company, etc.);
 - b. How you will be directly and substantially affected by the outcome of the case; and
 - c. Why your intervention will not unduly broaden the issues in the case;
4. A statement certifying that you have served a copy of the request to intervene on the Company or its attorney and to all parties of record in the case; and
5. If you are not represented by an attorney who is an active member of the Arizona State Bar, and you are not representing yourself as an individual, sufficient information and any appropriate documentation to demonstrate compliance with Arizona Supreme Court Rules 31, 38, 39, and 42, as applicable.

The granting of motions to intervene shall be governed by A.A.C. R14-3-105, except that **all motions to intervene must be filed on or before <Company to insert date 5 business days following the filing of the Application>.**

If you do not intervene in this proceeding, you may not receive any further notice of the proceedings in this docket. However, all documents filed in this docket are available online (usually within 24 hours after docketing) at the Commission's website (www.azcc.gov) using the e-Docket function. You may choose to subscribe to an RSS feed for this case using the e-Docket function.

ADA/Equal Access Information

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation such as a sign language interpreter, as well as request this document in an alternative format, by contacting Shaylin Bernal, ADA

Coordinator, voice phone number at 602-542-3931, and email at SABernal@azcc.gov. Requests should be made as early as possible to allow time to arrange the accommodation.

ARIZONA CORPORATION COMMISSION



**RATE APPLICATION
FOR WATER COMPANIES
WITH ANNUAL GROSS OPERATING REVENUES
(INCLUDING REQUESTED RATE RELIEF)
OF LESS THAN \$1,000,000
PER ARIZONA ADMINISTRATIVE CODE R14-2-103
Details at website: www.azcc.gov**

UTILITY NAME

TEST YEAR ENDED

Required invoices to be submitted are listed in the checklist on page 1.

You must complete ALL items in the application according to the instructions provided. If you have any questions regarding the application please call (602) 542-4251 for Staff assistance or see our website at www.azcc.gov

**IN ORDER TO PROCESS YOUR APPLICATION
PLEASE FORWARD THE ORIGINAL
PLUS ONE COPY OF THE
APPLICATION**

**ARIZONA CORPORATION COMMISSION
DOCKET CONTROL CENTER
1200 WEST WASHINGTON STREET
PHOENIX, ARIZONA 85007**

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WATER RATE APPLICATION CHECKLIST

Please use the following checklist to ensure that all necessary attachments are included in the application. Provide an explanation for any omitted item.

ORIGINAL APPLICATION PACKAGE ITEMS

- ☐ 1. Please include the original plus one additional copy of this application in your submission. Be sure to download the accompanying excel spreadsheet portion of the application and complete all of the schedules. Failure to fill out and include these schedules will result in an insufficient application. In addition be prepared to provide Staff with an electronic copy of the spreadsheet upon request.
- ☐ 2. The Arizona Department of Revenue ("ADOR") certificate of compliance letter of good standing. To request a certificate of compliance, use the Tax Clearance Application (Form# 10523) found on the ADOR website at <http://www.azdor.gov/Forms/Other.aspx>. (Send in the certificate of compliance with your application.)
- ☐ 3. The utility's most recent Arizona Department of Environmental Quality ("ADEQ") annual sampling fee invoice for its Monitoring Assistance Program, and invoices for all other water testing conducted during the Test Year. (Acct. 635)
- ☐ 4. (Plant Additions) - Please provide a list of all plant additions by year and NARUC plant account number. For each plant addition project with over \$500 in total costs, please provide (1) a list showing the individual cost components of the plant addition and (2) invoices to support each cost component shown on the list. Please cross-reference the amounts on the list to the invoices.
- ☐ 5. (Salaries and Wages) – Please provide a breakdown by position, salary, and duties for all of the Company's employees. (Acct. 601)
- ☐ 6. (Purchased Water) – Please provide (1) a list showing the individual cost components of the total purchased water expense and (2) invoices to support each cost component over \$250 shown on the list. (Acct. 610)
- ☐ 7. (Purchased Power) – Please provide (1) a list showing the individual cost components of the total purchased power expense and (2) invoices to support each cost component over \$250 shown on the list. (Acct. 615)
- ☐ 8. (Repairs and Maintenance) – Please provide (1) a list showing the individual cost components of the total purchased repairs and maintenance expense and (2) invoices to support each cost component over \$250 shown on the list. (Acct. 620)
- ☐ 9. (Outside Services) – Please provide (1) a list showing the individual cost components of the total purchased outside services expense and (2) invoices to support each cost component over \$250 shown on the list. (Acct. 630)
- ☐ 10. Statements from the county for Property Tax expenses incurred during the Test Year. (Acct. 408.11)

GENERAL INSTRUCTIONS

Processing the request for a rate adjustment requires completion of ALL PARTS of this application, including associated schedules. Specifically schedules 1-13 of the Excel file are required and should be printed out and submitted with the application. Schedules 14-19 are optional, as is using Items #4-9 in the format provided. Work papers 1, 3, 4, and 5 are required to be completed and to be made available to Staff as part of the rate case, but do not need to be printed out and filed with the application. Complete the Narrative Description of the Application for Rate Adjustment on pages 4 and 5, as well as the statements on pages 6 through 8. Read the accompanying instructions, download the associated excel file and fill out schedules 1 through 15 and any supplemental schedules and associated surcharge/adjustor mechanism included in the workbook. Dollar amounts should be rounded to the nearest dollar. **NO ENTRY SHOULD BE LEFT BLANK.** If an amount is zero, enter a zero. **Any application that is found to be insufficient will not be processed until the deficiencies are corrected per A.A.C. R14-2-103.B.7.**

A completed application also requires notification of customers of the rate request. The format of the customer notification letter is provided on page 15 of this application and also in the Excel file. Use the language and form of this letter in notifying customers. The customer notification must be provided to customers as soon as the application is found to be sufficient. A copy of this notice, together with a notarized cover letter stating the method of customer notification and the date the notification was sent to the customers, must be docketed as soon as completed.

Please provide any supplementary information the Company believes will assist in the evaluation of the rate request. For example, if expense items are substantially different from the latest annual report filed with the Commission, or if significant plant additions have been made since the prior rate increase, attach supporting explanations for those changes to the application. Clearly label any attachments and staple them to the application.

Selection of a Test Year for the utility is an important part of the application. A Test Year older than the year reflected in the most current Annual Report filed with the Utilities Division is usually considered outdated. Questions regarding the selection of a Test Year should be addressed to the Chief of Accounting and Rates at (602) 542-0743.

After you have included all the required items from the checklist on the previous page, please submit the **original and one additional copy** of the completed application with a cover sheet to:

Arizona Corporation Commission
Docket Control Center
1200 West Washington Street Phoenix,
Arizona 85007

NARRATIVE DESCRIPTION OF APPLICATION FOR RATE ADJUSTMENT

Instructions:

Please provide the reasons for your requested rate adjustment by checking the appropriate box(es) below. If desired, the Company may also attach a written narrative regarding its reasons for the requested rate adjustment. Your narrative may also include efforts made by the utility to control costs/expenses and/or mitigate the amount of rate adjustment.

- ☐ Changes in current, compared to past operations that necessitate the rate adjustment Please explain:

- ☐ Descriptions and/or calculations of adjustments made to amounts that are included in this application that are different than amounts recorded in your books/ledgers (pro forma adjustments) Please explain:

- ☐ Significant factors influencing your revenues, expenses and/or rate base Please explain:

- ☐ Anticipated growth/decline in customers expected in the next two years, the amount of anticipated construction to serve those customers, and how financed; the type of customers served by the utility, e.g. residential, irrigation, small retail businesses, large commercial, etc. Please explain:

- ☐ Anticipated construction Please explain:

☐ Efforts made to encourage conservation of water through the proposed rate design or through other means
Please explain:

☐ Other factors
Please explain:

Attach additional pages as necessary.

Company Name:	Test Year Ended:
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AFFILIATE RELATIONSHIP

Please indicate a yes or no answer to the questions below and provide an explanation where necessary.

An affiliate relationship is one where an entity is directly or indirectly controlled by or controls another entity. This includes but is not limited to the power to direct the management policies of such entity, whether through ownership of voting securities, by contract, or otherwise. Does the Company have a relationship with another entity that may include corporations, partnerships, sole proprietorships, limited liability corporations (LLCs), as well as common ownership of a water company and another entity such as a development company or wastewater company?

Are any assets owned jointly with any affiliated or subsidiary entities?

☐ YES ☐ NO

If Yes, please provide a description of each jointly owned asset, its cost, and the percentage of the asset owned by the utility. (Please note the amounts reported on Schedules 3 through 5 should only include the percentage of plant owned by the utility.)

Were any of the assets constructed or acquired from an affiliated or subsidiary entity?

☐ YES ☐ NO

If Yes, please identify the affiliated entity, the relationship with the utility, and a detailed listing of all transactions reflected in the Plant accounts. Also include detail for other balance sheet accounts, such as Advances, Contributions in Aid of Construction, inter-company payables and receivables, as well as affiliated revenues and expenses from the Company's Income Statement.

STATEMENTS IN SUPPORT OF RATE REQUEST

Complete the following statements in support of your rate request.

_____ (the "Company") requests an adjustment in the existing rates charged by the Company. The information contained in this application is based upon a twelve-month Test Year ending (mm/dd/yy). The Company had total operating revenues of \$_____, served _____ metered and _____ un-metered

(from Schedule 6 page 1)

customers, and sold _____ gallons of water during the Test Year.

(from Schedule 7)

The Company is requesting a(n) increase/decrease in revenues in the amount of \$_____.

Total annual operating revenues, if the Company is granted the rate adjustment, will be \$_____.

The Company is current on all property taxes. ☐ YES ☐ NO

The Company is current on all sales taxes. ☐ YES ☐ NO
(Please see checklist item 2 on page 1.)

The Company currently has a Curtailment Plan Tariff on file with the Commission ☐ YES ☐ NO

The Company currently has a Backflow Prevention Tariff on file with the Commission. ☐ YES ☐ NO

The Company notified its customers of its application for a rate adjustment on _____ (mm/dd/yy). **A COPY OF THE NOTICE WITH A NOTARIZED COVER LETTER STATING THE METHOD OF CUSTOMER NOTIFICATION, AS WELL AS THE DATE OF THE NOTIFICATION, MUST BE ATTACHED. (See page 35)**

By completing this application in support of the Company's request for a rate adjustment, the Company realizes that Original Cost Less Depreciation ("OCLD") plant information will be used to determine the fair value rate base, i.e., the Company waives the right to Reconstruction Cost New.

Check the box that corresponds with the utility's structure: Sole

- ☐ Proprietorship
- ☐ Partnership
- ☐ "C" Corporation
- ☐ "S" Corporation
- ☐ Limited Liability Company ("LLC")
- ☐ Association-Cooperative
- ☐ Other, please specify: _____

Note: If a corporation, please list stockholders and the respective number of shares owned below. Attach additional pages if needed.

Stockholders	Number of Shares Owned

I have read and completed this application, and to the best of my knowledge all of the information contained herein, and attached to this application, is true and correct.

Name of Authorized Representative (print):	Company Name:
Title:	Address:
Signature:	
Date:	Phone Number:
E-mail Address:	Fax Number:
Website Address:	

CURRENT AND PROPOSED RATES AND CHARGES INSTRUCTIONS

Complete the cells highlighted in yellow on schedule 1 in the associated spreadsheet, showing rates and charges currently in effect, and those proposed by the Company. Specify the customer class or classes (i.e., residential, commercial, industrial, irrigation, all, or other classes) in the drop down boxes in column B. Please note that per Decision No. 75626¹, in order to provide clarity and consistency the Commission has issued policy guidelines where at least 50% of the total revenue requirement should be generated by the basic service charge and the first tier, and that no less than 10% and no more than 20% of the total revenue requirement should be generated by the third or highest tier.

MONTHLY CHARGE:

Enter the monthly minimum (or service) charge and gallons included in the minimum for each meter size. For example, enter "\$12.00 for zero gallons." Propose a monthly minimum (or basic service) charge for every meter size listed on page 9. Also, enter the commodity (or excess) charge for the gallonage the customer will be charged for gallons used over those included in the minimum charge. For example, enter "\$1.25 per 1,000 gallons." If excess charges vary with gallonage used, enter the rates and gallons covered in each tier of consumption in the space provided. For example:

First Tier	Up to 3,000 gallons	\$1.00 per 1,000 gallons
Second Tier	3,001 to 10,000 gallons	\$1.50 per 1,000 gallons
Third Tier	Over 10,000 gallons	\$2.50 per 1,000 gallons

If a flat rate, rather than a metered rate, is currently approved or proposed, enter the monthly rate in the space provided. A "flat rate" is a charge that is not based on gallons used. (For example, \$10.00 for all the water you can use.) If the Company currently has a flat rate and wishes to continue this rate, please contact the Chief of Accounting and Rates at 602-542-0743. It is likely that Staff will not recommend the continuation of such a rate.

¹ Decision No. 75626 issued on July 25, 2016, page 13 lines 14-24.

SERVICE CHARGES INSTRUCTIONS

Listed below are current and proposed service charges as appropriate. Commission Rules should be consulted in proposing new service charges. Please complete the information highlighted in yellow on Schedule 2 of the spreadsheet. List current and proposed rates, as well as any service charges not listed below that the Company proposes to charge.

Service Charge (Commission)	Description
Service Line and Meter Installation Charge (R14-2-405.B)	A refundable Advance in Aid of Construction paid by a new customer to cover the cost of installing all customer piping up to the meter, as well as the cost of installing the meter. Propose a charge for every meter size listed on page 11.
Establishment (R14-2-403.D.1)	A charge covering the cost to establish a new account for a person requesting service when the utility needs only to install a meter for initial establishment, reestablishment, or reconnection.
After Hours Service Charge (R14-2-403.D.2)	A charge covering the cost of establishment, re-establishment and reconnection-delinquent after normal hours at the customer's request for the customer's convenience. After Hours Service Charge will be in addition to the charge for any utility service provided.
Meter Test (R14-2-408.F)	A charge for testing the accuracy of a meter upon a customer's request. No charge will be levied if the meter is found to be in error by more than +/- three (3) percent.
Deposit (R14-2-403.B)	A refundable security deposit not exceeding two times the average residential class bill for residential customers, and not exceeding two and one-half times a non-residential customer's estimated maximum monthly bill.
Deposit Interest (R14-2-403.B.3)	Annual percentage interest rate applied to customer deposits. A six percent rate shall be applied if the company does not specify an interest rate with the Commission.
Re-establishment (R14-2-403.D.1)	A charge for service at the same location where the same customer had ordered a service disconnection within the preceding twelve-month period.
NSF Check (R14-2-409.F.1)	A fee for each instance where a customer tenders payment for utility service with an insufficient funds check.
Deferred Payment (R14-2-409.G.6)	Applicable monthly finance charges (interest rate) applied in a deferred payment agreement between the company and a customer.
Meter Re-read (R14-2-408.C.2)	Charge for a customer requested re-read of meter applicable when the original reading was found not to be in error.

UTILITY PLANT IN SERVICE INSTRUCTIONS

Instructions for Title sheet

To assist with the completion of Schedule 3 please refer to the Commission Decision issued in the Company's prior rate case. That Decision established the value for the Original Cost of the plant and accumulated depreciation at the end of the prior test year. It may be necessary to refer to the associated Staff Report for individual account detail relating to the totals listed in the Decision. Update the cells highlighted in grey in columns I and J with this information. Using the Company's records update column K for all fully depreciated plant.

Instructions for the Work papers

Please complete work papers 1, 3, 4, and 5. These work papers are not required to be printed off and filed with the application, but will be requested by Staff to assist with the audit of the rate case. On the work papers update all cells highlighted in grey. This includes the year(s) on work paper 1, which should begin with the year immediately following the test year in the last rate case through the test year in the current application, and the dollar amounts of all plant additions and retirements for each account by year.

Note: For assistance with any of the above, please contact the Chief of Accounting and Rates at 602- 542-0743.

INCOME TAX

The Commission allows federal and state income tax expense for taxable "type-C" corporations calculated by Staff at authorized tax rates. See Decision No. 73739.

For other entities such as Sole-Proprietorships, Partnerships, S-Corporations, Limited Liability Companies ("LLCs"), Trusts, and other taxable or pass-through entities the Commission has determined that an income tax allowance can be included in the utilities' expenses. The allowance will be based on the lower of the taxes computed using the Type-C corporate tax rates or the combined effective personal tax rates of the entities' owners.

In order for Staff to be able to calculate the effective personal tax rates of the entities' owners, the following information must be included in this application:

1. Names of all the owners.
2. The percentage of profit/(loss) assigned to each owner.
3. The owners' personal federal and state income tax filing status (i.e. single, married filing jointly, etc.).
4. If any of the owners are a pass-through or potential pass-through entity such as an S-Corporation or a Trust, then the ownership breakdown of the entity/trust will also be required including all the information listed above.

If the utility fails to provide all of the necessary information required, the Commission has determined that no income tax allowance will be recognized.

The following is an example of the calculations that Staff will make. For this situation, the Company is owned by a single person, registered as an LLC, whose income tax filing status is Married Filing Jointly. In this example, the Company has \$50,000 in taxable income, and the calculations use 2015 tax brackets. As is shown in the results, per the Commission income tax policy the individual calculation would be used because it results in the lower total taxes,

Income taxes based on individual calculations:

State Income Tax		Taxable Income		\$50,000
Over	But not Over	Amount plus	%	Taxes
\$0	\$20,000	\$0	2.59%	\$0
\$20,000	\$50,000	\$259	2.88%	\$1,699
\$50,000	\$100,000	\$691	3.36%	\$0
\$100,000	\$300,000	\$1,531	4.24%	\$0
\$300,000	\$999,999,999	\$5,771	4.54%	\$0
				<u>\$1,699</u>

Federal Income Tax		Taxable Income		\$48,301
Over	But not Over	Amount plus	%	Taxes
\$0	\$18,450	\$0	10.00%	\$0
\$18,450	\$74,900	\$1,845	15.00%	\$6,323
\$74,900	\$151,200	\$10,313	25.00%	\$0
\$151,200	\$230,450	\$29,388	28.00%	\$0
\$230,450	\$411,500	\$51,578	33.00%	\$0
\$411,500	\$464,850	\$111,324	35.00%	\$0
\$464,850	\$9,999,999,999	\$129,997	39.60%	\$0
				<u>\$6,323</u>

Calculation of corporate income tax:

Arizona Taxable Income	\$50,000
Arizona State Income Tax Rate	6.0000%
Arizona Income Tax	<u>\$3,000</u>
Federal Taxable Income	47,000
Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	7,050
Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	0
Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	0
Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	0
Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	0
Total Federal Income Tax	<u>\$7,050</u>
Combined Federal and State Income Tax	<u><u>\$10,050</u></u>

BILL COUNT INSTRUCTIONS

Instructions for Schedule 6

A Bill Count must be provided for each of the meter sizes the Company had in service during the Test Year. This information will be entered on Schedule 6 from the drop-down boxes which are linked to Schedule 7, but ensure that the information is accurate and update as necessary on both schedules. Update the information in the grey highlighted cells with the counts at each level of usage for each meter. For all usage over 100,000 gallons enter the exact usage in rows 36 through 57. Hide any columns and/or rows that aren't needed.

The first step in producing the Bill Count is to collect all monthly bills rendered for metered water sales during the 12 months of the Test Year. The collection of bills must include bills to part-time customers and to customers who are no longer on the system, but who were on the system for any part of the Test Year.

Only include bills for water sold during the Test Year. For example, assume that the Test Year runs from January 1st to December 31st (calendar year) and you normally bill on January 5th. The bill sent out at that time would cover December 1st through the 31st usage of the prior year and should not be included. The first billing to be used for the year would be the February 5th billing and the last billing to be used would be the billing of January 5th of the succeeding year.

Note: For explanation of any of the above, please contact the Chief of Accounting and Rates at 602-542-0743.

CUSTOMER NOTIFICATION

_____ (Company Name) has applied to the Arizona Corporation Commission for an adjustment in rates. The current rates have been in effect since _____ (mm/yy). A(n) increase/decrease in rates is necessary at this time due to _____ (reason for the Company's request for a rate adjustment as summarized from pages 3 and 4). Based on the Company's unaudited Test Year results, (Company Name) realized an operating income/loss of \$ _____. The Company is requesting a revenue increase/decrease of \$ _____ or _____ % of total revenues. Please see the attached Schedules 1 and 2 of the Company's application for the current and proposed rates.

The Application is available for inspection during regular business hours at the offices of the Commission in Phoenix at 1200 West Washington Street (for Tucson, call 800-535-0148 if located outside the Tucson local calling area or 520-628-6550 if inside the Tucson local calling area) and at [name of Company and address]. Please be advised that the rates and charges ultimately approved by the Commission may be higher or lower than the rates and charges requested in the Application.

Customer input is an important part of the Commission's analysis of the requested adjustment and is a factor in determining whether a hearing will be conducted. Customers should bring to the Commission's attention any questions or concerns related to the Company's Application, including service, billing procedures or other factors important in determining the reasonableness of charges. Customers may have the right to intervene in this matter. Customers wishing to communicate with the Commission, or request information on intervention in the proceeding, should contact the Commission's Consumer Services Section at 800-222-7000 (if located outside the Phoenix local calling area) or 602-542-4251 in the Phoenix local calling area. Customers may also contact the Tucson Commission office by calling 800-535-0148 (if located outside the Tucson local calling area) or 520-628-6550 in the Tucson local calling area.

Customers are advised that the Commission may act upon the Application without a hearing. Regardless of whether a formal hearing is held, customer comments submitted in writing will be placed in the office file, which the Commission reviews prior to making its final decision on the Application. It is important that customers contact the Commission within 15 days of the receipt of this notice so that the Commission's Staff can consider customer comments and concerns in developing its recommendations to the Commission.

Small Water Utility ABC
 Short Form Rate Application
 WATER CONSERVATION ADJUSTMENT
 Test Year Ended 12/31/2015

Schedule 15
 Short Form Rate Application Page No. 21

WATER CONSERVATION ADJUSTMENT

PERIOD	NUMBER OF CUSTOMERS	GALLONS SOLD (Thousands)	Average Kgal usage per Customer	Change in Usage Per customer
Test Year Ended 12/31/2015	2,000	47,166	23.58	(1.18)
2014	2,000	49,524	24.76	(1.24)
2013	2,000	52,001	26.00	(1.30)
2012	2,000	54,601	27.30	(1.37)
2011	2,000	57,331	28.67	

Average Decline in Use Per Customer (1.27)
 Percent Decline Expected -5.39%

NOTE: If implementation of a rate increase will likely result in further decline than -0.0539, please enter the percentage you anticipate sales to decline below:

Anticipated Decline

-10.00%

Decline in Metered Water Revenues Expected (\$16,818) This Feeds to the Income Statement Automatically
 Decline in Purchased Water Expense (\$271)
 Decline in Purchased Power Expense (\$3,088)
 Decline in Chemical Expense (\$4,334)

Explain Reason for Anticipated Decline

TYPE HERE

Instructions: Enter the amount of water sales in kgal and number of customers for the last 5 years from your annual reports.

PURCHASED WATER ADJUSTOR MECHANISM (PWAM)

As Part of this Rate Application, The Company is requesting approval of an adjustor Mechanism, whereby increased costs of Purchased Water may be recovered through a surcharge on customer bills. The Proposed calculation of such a charge is below:

Pass Through Calculation

Expected Purchased Water Expense	\$3,720	
Expected Year Gallons Pumped (Thousands)	76,290	
Expected Year Water Expense per 1,000 Gal.	\$0.05	
Test Year Purchased Water Expense	\$2,976	From Schedule 8
Test Year Gallons Pumped (Thousands)	72,657	From Schedule 7
Test Year Water Expense per 1,000 Gal.	\$0.04	
Expected Purchased Water Expense Normalized for Test Year Sales	\$3,543	
Increase to Test Year Purchased Water Expense	567	
Water Sales During the Test Year	47,166	Annual Report Schedule 12
Expense Increase (Decrease) per Thousand Gallons Sold	\$0.01	

PPAM Charge to Sample Customer Bill Monthly

5/8" Residential Usage	Gallons	Surcharge per Gallon
Average	552	\$0.01
Gallons	5,000	\$0.06
Gallons	10,000	\$0.12
Gallons	15,000	\$0.18

The Company Seeks to file, annually with the Commission, a calculation in this form, to support implementation of such a surcharge. Calculations resulting in a credit will also be passed through to the customer. Customer will be notified either by a message on their bill, by bill insert, or by mail.

PURCHASED POWER ADJUSTOR MECHANISM (PPAM)

As Part of this Rate Application, The Company is requesting approval of an adjustor Mechanism, whereby increased costs of Purchased Power may be recovered through a surcharge on customer bills. The Proposed calculation of such a charge is below:

Pass Through Calculation

Expected Purchased Power Expense	\$42,465	
Expected Year Gallons Pumped (Thousands)	76,290	
Expected Year Power Expense per 1,000 Gal.	\$0.56	
Test Year Purchased Power Expense	\$33,972	From Schedule 8
Test Year Gallons Pumped (Thousands)	72,657	From Schedule 7
Test Year Water Expense per 1,000 Gal.	\$0.47	
Expected Purchased Water Expense Normalized for Test	\$40,443	
Increases to Test Year Purchased Water Expense	6,471	

Water Sales During the Test Year 47,166 Annual Report Schedule 12

Expense Increase (Decrease) per Thousand Gallons Sold \$0.14

PPAM Charge to Sample Customer Bill Monthly

5/8" Residential Usage	Gallons	Surcharge per Gallon
Average	552	\$0.08
Gallons	5,000	\$0.69
Gallons	10,000	\$1.37
Gallons	15,000	\$2.06

The Company Seeks to file, annually with the Commission, a calculation in this form, to support implementation of such a surcharge. Calculations resulting in a credit will also be passed through to the customer. Customer will be notified either by a message on their bill, by bill insert, or by mail.

SYSTEM IMPROVEMENT FUND SURCHARGE (SIFS)

As Part of this Rate Application, the Company is requesting approval of a System Improvement Fund Surcharge, whereby vital capital expenditures made over the next 5 years may be recovered through a surcharge on customer bills. The proposed calculation of such a charge is below:

						Per Decision XXXXX		
						ROR	7.00%	
						ROE	10.00%	
						Annual Depr Rate	NARUC	Description
						3.33%	333	Services
						2.00%	331	Valves
						2.00%	335	Hydrants
						8.33%	334	Meters
						Conv Factor	1.64	
						Total Authorized Revenues per Decision	\$179,559	
						SIFS Revenue Cap %	5%	
						Annual SIFS Revenue Cap	\$8,978	
						NET SIFS Rate Base	\$63,750	
						Authorized Rate of Return	7.00%	
						Required Operating Income	\$4,463	
						Conversion factor	1.64	
						Required Revenue	\$7,319	
						Depreciation Expense	\$1,480	
						SIFS Efficiency Credit	-5%	
						SIFS Revenue Requirement Efficiency Credit	(\$366)	
						Under Collection from Previous Year	\$0	
						Proposed SIFS Authorized Revenue	\$8,433	

Number of equivalent meters from below 8,511 B
Charge for 5/8" customer per year \$0.99 A/B = C
Charge for 5/8" customer per month \$0.08 C / 12 = D

Table I		Annual		Annual	Annual
		Equivalent Meters		Surcharge	Rev
Meter Size	No. of Cust	Multiplier	5/8" x 3/4"	Fixed Surcharge	By Meter Size
	[1]	[2]	[3] = [1] * [2]	[4] = [Net SIFS Surcharge Table II] * 12	[5] = [1] * [4]
5/8" x 3/4" Meter	6,619	1.0 Time	6,619	\$0.99	\$6,558
3/4" Meter	108	1.5 Times	162	1.32	143
1" Meter	60	2.5 Times	150	2.28	137
1-1/2" Meter	48	5 Times	240	4.56	219
2" Meter	84	8 Times	672	7.32	615
3" Meter	23	16 Times	368	14.64	337
4" Meter	12	25 Times	300	22.80	274
6" Meter	0	50 Times	0	45.60	0
8" Meter	0	80 Times	0	72.96	0
10" Meter	0	115 Times	0	104.88	0
Totals	6,954 B		8,511		\$8,282
Probable Over/(Under) Collection Year 1					(\$151)

Table II		Monthly	Monthly	Monthly
		SIFS Surcharge *	SIFS Efficiency Credit	Net SIFS Surcharge
Meter Size	Multiplier			
5/8 X 3/4 "	1.0 Time	\$0.08	\$0.00	\$0.08
3/4"	1.5 Times	0.12	(0.01)	0.11
1"	2.5 Times	0.20	(0.01)	0.19
1.5"	5 Times	0.40	(0.02)	0.38
2"	8 Times	0.64	(0.03)	0.61
3"	16 Times	1.28	(0.06)	1.22
4"	25 Times	2.00	(0.10)	1.90
6"	50 Times	4.00	(0.20)	3.80
8"	80 Times	6.40	(0.32)	6.08
10"	115 Times	9.20	(0.46)	8.74

* Surcharge has been rounded down to the nearest penny

The Company seeks to file, annually with the Commission, a calculation in this form to support implementation of such a surcharge. Customer will be notified either by a message on their bill, by bill insert, or by mail.

*Note: This Figures Comes from Schedule 14 Page 10

SYSTEM IMPROVEMENT FUND SURCHARGE (SIFS) CONTINUED

As Part of this Rate Application, the Company is requesting approval of a System Improvement Fund Surcharge, whereby vital capital expenditures made over the next 5 years may be recovered through a surcharge on customer bills. The proposed calculation of such a charge is below:

YEAR 1						
Line No.		Services	Valves	Hydrants	Meters	Total
1	SIFS Eligible Investments	\$50,000	\$5,000	\$5,000	\$25,000	\$85,000
2	Plant Retirements	(12,500)	(1,250)	(1,250)	(6,250)	(21,250)
3	Net Plant Line [1] + Line [2]	\$37,500	\$3,750	\$3,750	\$18,750	\$63,750

ACCUMULATED DEPRECIATION

4	SIFS Eligible Investments Lines 13 to 16 Column [A]					
5	Plant Retirements					
6	Net Accumulated Depreciation [4] + Line [5]					
7	Rate Base Line [3] + Line [6]					
10	Depreciation Expense [Lines 13 to 16 Column C]					
	Depreciation Expense by NARUC 1st Year	SIFS Investments	Plant Retirements	Net		
13	Service Lines	\$833	(\$208)	\$624		
14	Valves	50	(13)	38		
15	Hydrants	50	(13)	38		
16	Meters	1,041	(260)	781		
17	Total	\$1,974	(\$493)	\$1,480		

YEAR 2						
Line No.		Services	Valves	Hydrants	Meters	Total
1	SIFS Eligible Investments	\$50,000	\$5,000	\$5,000	\$25,000	\$85,000
2	Plant Retirements	(12,500)	(1,250)	(1,250)	(6,250)	(21,250)
3	Net Plant Line [1] + Line [2]	\$37,500	\$3,750	\$3,750	\$18,750	\$63,750

ACCUMULATED DEPRECIATION

4	SIFS Eligible Investments Lines 13 to 16 Column [A]					
5	Plant Retirements					
6	Net Accumulated Depreciation [4] + Line [5]					
7	Rate Base Line [3] + Line [6]					
10	Depreciation Expense [Lines 13 to 16 Column C]					
	Depreciation Expense by NARUC 1st Year	SIFS Investments	Plant Retirements	Net		
13	Service Lines	\$833	(\$208)	\$624		
14	Valves	50	(13)	38		
15	Hydrants	50	(13)	38		
16	Meters	1,041	(260)	781		
17	Total	\$1,974	(\$493)	\$1,480		

SYSTEM IMPROVEMENT FUND SURCHARGE (SIFS) CONTINUED

As Part of this Rate Application, the Company is requesting approval of a System Improvement Fund Surcharge, whereby vital capital expenditures made over the next 5 years may be recovered through a surcharge on customer bills. The proposed calculation of such a charge is below:

YEAR 3

Line No.		Services	Valves	Hydrants	Meters	Total
1	SIFS Eligible Investments	\$50,000	\$5,000	\$5,000	\$25,000	\$85,000
2	Plant Retirements	(12,500)	(1,250)	(1,250)	(6,250)	(21,250)
3	Net Plant Line [1] + Line [2]	\$37,500	\$3,750	\$3,750	\$18,750	\$63,750

ACCUMULATED DEPRECIATION

4

SIFS Eligible Investments Lines 13 to 16 Column [A]

5 Plant Retirements

6 Net Accumulated Depreciation [4] + Line [5]

7 Rate Base Line [3] + Line [6]

10 Depreciation Expense [Lines 13 to 16 Column C]

Depreciation Expense by NARUC 1st Year

	SIFS Investments	Plant Retirements	Net
13 Service Lines	\$833	(\$208)	\$624
14 Valves	50	(13)	38
15 Hydrants	50	(13)	38
16 Meters	1,041	(260)	781
17 Total	\$1,974	(\$493)	\$1,480

YEAR 4

Line No.		Services	Valves	Hydrants	Meters	Total
1	SIFS Eligible Investments	\$50,000	\$5,000	\$5,000	\$25,000	\$85,000
2	Plant Retirements	(12,500)	(1,250)	(1,250)	(6,250)	(21,250)
3	Net Plant Line [1] + Line [2]	\$37,500	\$3,750	\$3,750	\$18,750	\$63,750

ACCUMULATED DEPRECIATION

4 SIFS Eligible Investments Lines 13 to 16 Column [A]

5 Plant Retirements

6 Net Accumulated Depreciation [4] + Line [5]

7 Rate Base Line [3] + Line [6]

10 Depreciation Expense [Lines 13 to 16 Column C]

Depreciation Expense by NARUC 1st Year

	SIFS Investments	Plant Retirements	Net
13 Service Lines	\$833	(\$208)	\$624
14 Valves	50	(13)	38
15 Hydrants	50	(13)	38
16 Meters	1,041	(260)	781
17 Total	\$1,974	(\$493)	\$1,480

SYSTEM IMPROVEMENT FUND SURCHARGE (SIFS) CONTINUED

As Part of this Rate Application, the Company is requesting approval of a System Improvement Fund Surcharge, whereby vital capital expenditures made over the next 5 years may be recovered through a surcharge on customer bills. The proposed calculation of such a charge is below:

YEAR 5					
Line No.		Services	Valves	Hydrants	Meters Total
1	SIFS Eligible Investments	\$50,000	\$5,000	\$5,000	\$25,000 \$85,000
2	Plant Retirements	(12,500)	(1,250)	(1,250)	(6,250) (21,250)
3	Net Plant Line [1] + Line [2]	\$37,500	\$3,750	\$3,750	\$18,750 \$63,750

ACCUMULATED DEPRECIATION

4	SIFS Eligible Investments Lines 13 to 16 Column [A]				
5	Plant Retirements				
6	Net Accumulated Depreciation [4] + Line [5]				
7	Rate Base Line [3] + Line [6]				
10	Depreciation Expense [Lines 13 to 16 Column C]				
	Depreciation Expense by NARUC 1st Year	SIFS Investments	Plant Retirements	Net	
13	Service Lines	\$833	(\$208)	\$624	
14	Valves	50	(13)	38	
15	Hydrants	50	(13)	38	
16	Meters	1,041	(260)	781	
17	Total	\$1,974	(\$493)	\$1,480	

TOTAL SIFS EXPENDITURES

Line No.		Services	Valves	Hydrants	Meters Total
1	SIFS Eligible Investments	\$250,000	\$25,000	\$25,000	\$125,000 \$425,000
2	Plant Retirements	(62,500)	(6,250)	(6,250)	(31,250) (106,250)
3	Net Plant Line [1] + Line [2]	\$187,500	\$18,750	\$18,750	\$93,750 \$318,750

ACCUMULATED DEPRECIATION

4	SIFS Eligible Investments Lines 13 to 16 Column [A]				
5	Plant Retirements				
6	Net Accumulated Depreciation [4] + Line [5]				
7	Rate Base Line [3] + Line [6]				
10	Depreciation Expense [Lines 13 to 16 Column C]				
	Depreciation Expense by NARUC 1st Year	SIFS Investments	Plant Retirements	Net	
13	Service Lines	\$4,163	(\$1,041)	\$3,122	
14	Valves	250	(63)	188	
15	Hydrants	250	(63)	188	
16	Meters	5,206	(1,302)	3,905	
17	Total	\$9,869	(\$2,467)	\$7,402	

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 DOUG LITTLE

Chairman

3 BOB STUMP

Commissioner

4 BOB BURNS

Commissioner

5 TOM FORESE

Commissioner

6 ANDY TOBIN

Commissioner

7
8 ARIZONA CORPORATION COMMISSION)
9 INVESTIGATION INTO POTENTIAL)
10 IMPROVEMENTS TO ITS WATER)
POLICIES)

DOCKET NO. W-00000C-16-0151

DECISION NO. _____

ORDER

11
12 Open Meeting
13 September 7 and September 8, 2016
Phoenix, Arizona

14
15 BY THE COMMISSION:

16 * * * * *

17 FINDINGS OF FACT

18 **BACKGROUND**

19 1. On July 25, 2016, the Arizona Corporation Commission ("Commission") issued
20 Decision No. 75626 that directed Commission Staff to work with industry representatives to develop
21 and present information for Commission review.

22 2. Further, Staff was ordered to establish a Commission Ombudsman office for small water
23 companies and to work with industry representatives to evaluate ways to reduce the regulatory burden
24 on small water companies.

25 3. The Decision required that certain information related to several of the policies and
26 components thereof be made available for Commission review by September 1, 2016. The report
27 provides an update on the status of these items and provides various documents for Commission review
28 as directed.

THE WATER POLICIES WORK GROUP

4. The Water Policies Work Group ("Work Group") consists of members of Commission Staff in the Hearing and Utilities Divisions, Residential Utility Consumer Office ("RUCO"), the Water Utilities Association of Arizona ("WUAA"), the Rural Water Association of Arizona ("RWAA"), along with representatives from several water and wastewater companies including Arizona Water Company, EPCOR Water Arizona, Global Water, and Valley Utilities Water Company. The process was very open and collaborative. Input from all parties involved was incorporated into the end products that are being presented.

EMERGENCY SURCHARGES

5. The Work Group understands the desire of the Commission to lessen the regulatory obligations on smaller water companies while still protecting customers' interests. One policy that addresses this desire is the direction to facilitate an emergency surcharge process.

6. Class C, D or E water or wastewater utilities that face a water supply emergency may request an emergency surcharge. Decision No. 75626, directed the Work Group to evaluate by September 1, 2016, the Commission's current processing times for Emergency Surcharges, and to develop recommendations to allow a water or wastewater utility to receive a Commission vote on an emergency surcharge within 30 days and within 60 days after filing an initial surcharge application.

7. To meet this requirement the Work Group gathered input from the Hearing Division on a draft document of the Emergency Rate Case Application. This document was further refined by discussions of the Work Group. See Attachment A to the Status Update filed September 1, 2016 for the recommended processes that are the results of that group effort and the notice that would be required to be sent to customers at the time the applicant asks Staff to open a docket. Attachment A only specifically identifies the 30 day process; however, language was added to the attached document that, due to the unique circumstances of each case, and for good cause, any of the parties may request an extension of up to an additional 30 days.

8. The Work Group has recommended that the Commission adopt the Emergency Surcharges rate case process as detailed in Attachment A and discussed in the Status Update.

1 SHORT FORM RATE APPLICATION

2 9. Another policy facilitating the reduction of the regulatory burden on small water
3 companies involves making available to smaller companies, some adjutor mechanisms that some larger
4 utilities have been granted. These policies include making changes to the Short Form Rate Application
5 currently available to small water companies to assist with the rate case process. Specifically, Staff was
6 directed to update the Short Form Rate Application to include the schedules necessary for calculating
7 purchased power, purchased water, and system improvement surcharges, and to include a formulaic
8 method that will allow small utilities to calculate a Conservation Adjustment. Further, Staff was directed
9 to revise the questions in the current application to better reflect what is actually needed to process a
10 small company rate case.

11 10. The Work Group conducted an evaluation that included the information currently
12 requested, any missing information whose inclusion would make the process more efficient, how to
13 make the process easier in general, and how to incorporate the specific features ordered in the Decision.
14 Through the collaborative effort of the Work Group, a Short Form Rate Application has been
15 developed that includes all of the changes ordered in the Decision plus some additional changes that
16 are intended to streamline the process, as discussed in detail below.

17 11. In its current format, the Short Form Rate Application is available only as a Word/PDF
18 document. During the course of the evaluation, it was determined that in its current format, the
19 application can be somewhat cumbersome and overly burdensome. Specifically, it was difficult to add
20 columns where needed, some information between pages was duplicative, requesting all of the invoices
21 for each of the expense items in the application was unduly burdensome, and some of the instructions
22 were ambiguous, so much so that it wasn't always clear what was being requested.

23 12. The Work Group has recommended that the Commission make available an Excel
24 spreadsheet that can be downloaded and completed. This would be the first and biggest step to making
25 the process more efficient as discussed further throughout this summary. We believe that addressing
26 the required modifications in a Word or PDF document would likely make it more difficult for small
27 water companies to follow and/or use. Further, there are some efficiencies inherent in Excel that are
28 not available in Word or Adobe. We understand that some of the smaller water companies may not

1 have extensive experience in Excel so the Work Group has recommended that once the changes are in
2 place a version of this spreadsheet should be offered in a fillable PDF/Word format as an alternative.

3 13. In addition to the summary which explains all the changes that the Work Group has
4 recommended for the Short Form Rate Application, there is an accompanying Excel workbook available
5 for Commission review. Attachment B to the Status Update filed September 1, 2016 is the modified
6 version of the Word document for the Short Form Rate Application. Attachment C to the Status
7 Update filed September 1, 2016 contains the schedules for the recommended adjustor mechanisms.

8 14. The Work Group began this process by converting all of the tables included in the
9 existing Short Form Rate Application into schedules in an Excel workbook. The schedules include links
10 throughout which minimize the number of required and repeat inputs. There has also been some
11 additional functionality built-in as detailed below, but in general this includes features such as drop-
12 down menus and automatic formulas.

13 15. To make the process more efficient, the Work Group has recommended tying the Short
14 Form Rate Application to the Annual Report. Combining this information makes for a smoother
15 transition from the Annual Report to a rate case filing since the majority of the information required in
16 the Annual Report is also requested in the Short Form Rate Application¹. The Work Group has
17 recommended developing parameters in the annual report form that would alert the filing company that
18 it may want to consider filing a rate case².

19 16. While the Work Group has recommended the use of Excel, we have not recommended
20 that Excel be used exclusively. Some of the information in the application logically still belongs in the
21 current format, such as the general instructions, the checklist, background information, etc. See
22 Attachment B for the recommendation of the Work Group.

23 17. The Work Group also has recommended that the Commission review the Short Form
24 Rate Application as presented for review and provide further guidance for the Work Group on any
25 additional modifications that may be necessary.

26
27
28 1 The Work Group estimates that 70-80 percent of the information required in the Annual Report is also required in the
Short Form Rate Application, as can be seen in the provided electronic version of the application.

2 For example, a Company operating at a net loss. This functionality has yet to be built into the workbook.

Detailed Changes to the Overall Short Form Rate Case Application:

18. First, the number of copies required throughout the application process for smaller companies has been reduced to two, as discussed in the June 14, 2016 Staff Meeting. Some of the information being requested in the checklist has been clarified, including a recommended materiality threshold of \$250 for the operating expense invoices being requested. This materiality threshold is paramount for reducing the amount of time and resources spent by small utilities in preparing rate applications, and is consistent with the Standard of Materiality discussed later. The definition of an affiliated relationship has also been expanded, and the instructions have been updated to reflect all of the recommended changes³. A simplified example illustrating how income taxes are calculated has also been included.

Specific Changes to the Short Form Rate Case Application by Schedule:

19. The detailed changes as discussed in this section were made for efficiency purposes coupled with addressing the requirements of the Decision.

20. **Title sheet** – This is a new sheet that contains inputs for the plant in service, the accumulated depreciation and the fully depreciated plant balances that were approved in the last rate case. This information is then linked throughout as necessary. Having these inputs on the title page contributes to eliminating the need for any inputs on schedule 4 (Plant Summary) and schedule 5 (Utility Plant in Service).

21. **Schedule 1: Balance Sheet** – This was formerly pages 24-25 (now page 3). Added formulas and a way to flag for the Company's attention if the balance sheet does not in fact balance.

22. **Schedule 2: Water Company Plant Description** – This was formerly pages 17-18 (now page 5). No other changes.

23. **Schedule 3: Plant Summary** – This was formerly page 15 (now page 7). No longer requires any input, see the Title page comments.

24. **Schedule 4: Utility Plant in Service** – This was formerly page 16 (now page 8). No longer requires any input, see the Title page comments.

³ For ease, instructions have also been imbedded on each schedule of the workbook that are applicable for that particular schedule.

1 25. **Schedule 5: Water Use Data Sheet** – This was formerly page 19 (now page 9). Added
2 some of the information requested on the Annual Report to be consistent.

3 26. **Schedule 6: Bill Count Summary** – This was formerly pages 30-34 (now page 10).
4 Removes the quarterly reporting requirement. Links to Schedule 7, and to the proof of revenue
5 calculations.

6 27. **Schedule 7: Current and Proposed Rates** – This was formerly page 9 (now page 11).
7 This schedule includes a drop-down box for the meter size and customer type that will allow the
8 Company to select from a list of options. These selections will then link to the commodity charges
9 section at the bottom of this schedule, the bill counts (Schedule 14), and the proof of revenue (hidden
10 but linked to the income statement Schedule 8). In the existing Short Form Rate Application, it isn't
11 clear that the rate information is required for all meter sizes and types, and is often missing when the
12 Company has more than one meter size/type that it serves. These changes correct for this.

13 28. **Schedule 8: Current and Proposed Service Charges** – This was formerly page 11
14 (now page 12). Included now are the service line and meter charges that Staff typically has
15 recommended. These are for illustrative purposes only and are not part of what will be printed as part
16 of the application for the filing.

17 29. **Schedule 9: Income Statement** – This was formerly page 20 (now page 13). Added
18 columns for the Company proposed adjustments. Also added a link to the proof of revenue which
19 follows Staff's typical methodology for calculating revenues using the bill counts. This is intended to
20 assist the Company with the accuracy of its filing and will hopefully speed up the sufficiency
21 determination, which will also speed up the resolution of rate cases and reduce the amount of time
22 between when the Company files the rate case and the date when rates become effective.

23 30. **Schedule 10: Calculation of Depreciation Expense** – This was formerly page 22
24 (now page 15). Reduced the number of required inputs by linking to other schedules and the Annual
25 Report. Also input the depreciation rates that Staff typically has recommended as a reference for the
26 Company. This schedule will now support the depreciation expense on a going forward basis that
27 reflects the test year plant balances.
28

1 31. **Schedule 11: Pro Forma Additions/Subtractions** – Added this schedule, which will
2 allow the Company to include pro forma adjustments along with explanations to the income statement
3 (linked to Schedule 9).

4 32. **Schedule 12: Pro Forma Property Tax** – Also added a pro forma schedule specific for
5 property taxes that will reflect the property taxes using the formula approach, under the Company
6 proposed revenues (linked to Schedule 9).

7 33. **Schedule 13: Customer Notice** – The existing version of the Short Form Rate
8 Application requires that the Company notice its customers on the same day that the application is filed.
9 The Work Group discussed this requirement and determined that it does not need to be done on the
10 same day and that it would likely be easier for small utilities if it weren't. Therefore, the Work Group
11 has recommended that the notice be sent out by the Company as soon as sufficiency is issued. This
12 requirement would be consistent with the process for larger utilities. The notice was, and still is the last
13 page in the document.

14 34. **Schedule 14: Free Cash Flow** – Added a schedule that links to the other schedules that
15 will show the free cash flow of the Company. This will assist the Company with setting the proposed
16 revenue requirement.

17 35. **Schedule 15: Water Conservation Adjustment** – Added a schedule that will calculate
18 a water conservation adjustment (utilizing a formulaic method) given the average usage per customer in
19 the test year as compared to a prior period(s) (Annual Reports or test year in the last rate case).

20 36. **Schedule 16: Purchased Water Adjustor Mechanism ("PWAM")** – Added a PWAM
21 schedule. This is a more simplistic model for small water companies that is based on the more complex
22 models that have been approved by the Commission in rate cases for larger utilities.

23 37. **Schedule 17: Purchased Power Adjustor Mechanism ("PPAM")** – Added a PPAM
24 schedule. This is a more simplistic model for small water companies that is based on the more complex
25 models that have been approved by the Commission in rate cases for larger utilities.

26 38. **Schedule 18: Systems Improvement Fund Surcharge ("SIFS")** – Added a SIFS
27 Schedule. This is a version of the Systems Improvement Benefit ("SIB") surcharge that has been
28 approved by the Commission in rate cases for larger utilities. This schedule is intended for Class D and

1 E companies with a large enough rate base for the revenue requirement to be set using a rate of return.
2 An option discussed in the Decision, for those companies with very little or negative rate base, is an
3 Emergency repair and replacement fund. The Work Group believes that the particulars of this surcharge
4 is in part a policy issue to be decided within a rate case, that could be coupled with another directive
5 before the Work Group, specifically that of the development of a standard minimum operating margin.

6 39. **Schedule 19: Checklist** – Added a copy of the expense items portion of the checklist
7 (mirroring the word/PDF version of the application) that requires copies of invoices. Also added a
8 template for each expense item that companies can use in putting together their applications.

9 40. **Work paper 1: Plant Additions and Retirements by Year** – This was formerly page
10 14. The Work Group has recommended that instead of this being a schedule that is included with the
11 filing this be included as a work paper that will be made available for Staff's audit. The number of pages
12 that would be required to print would vary depending on the number of years since the last rate case,
13 but to include this as a work paper instead would reduce the number of pages that are printed.

14 41. **Work paper 2: Plant Accumulated Depreciation** – This is a new addition that
15 requires no input by the Company but can be used to assist in the filing by calculating the accumulated
16 depreciation as a check figure. This work paper is linked to work paper 1.

17 42. **Work paper 3: Advances in Aid of Construction** – This was formerly page 27. In
18 addition to recommending that this now be a work paper instead, the Work Group has added an input
19 for the balance of AIAC that was approved in the last rate case. The Work Group also has
20 recommended splitting out the different categories of AIAC to make the process simpler by reducing
21 the need for future data requests for this information. This work paper is linked to work paper 1.

22 43. **Work paper 4: Gross Contributions in Aid of Construction** – This was formerly page
23 28. In addition to recommending that this now be a work paper instead, the Work Group has added
24 an input for the amortization of CIAC. This work paper is linked to work paper 1.

25 44. **Work paper 5: Supplemental Financial Information** – This was formerly page 26.
26 No changes other than to include as a work paper. This work paper is linked to the Annual Report.

27 45. The Work Group realizes that the Short Form Rate Application will evolve over time,
28 and that flexibility is key in developing a product that will be beneficial for all parties involved. In

1 addition to the Work Group, the Excel version of the application being presented was also reviewed
2 by a representative of an ownership group that operates four small Class D and E water companies,
3 and his input was incorporated. The Work Group intends for the application to be reviewed by
4 additional small water companies and operators to solicit additional input. Another crucial step in the
5 evaluation process will be working with a small water company to file an actual rate application utilizing
6 the Excel version. The Work Group anticipates that these additional steps will occur at some as yet to
7 be determined point in the future.

8 46. The Work Group is also still working through the process of a Short Form Rate
9 Application for wastewater companies. The question was posed, "Should there be a short form
10 application for wastewater?" The Work Group's answer is that there should be a version created
11 specifically for wastewater utilities; however, because there are far more regulated water utilities the
12 focus has been on updating the water application. As such the Work Group has recommended that
13 the Commission be given the opportunity to review the recommended changes as presented for the
14 water application. Once further direction is given then the Work Group can develop a similar
15 wastewater application.

16 **ESTABLISH STANDARD OF MATERIALITY**

17 47. Another item detailed in the Small Water Company Rate Case Issues section addressed
18 materiality. This policy states that Staff's audits of small water companies should focus on issues likely
19 to materially impact rates. It also states that any accounting issues that have minimal impact on rates
20 need not be addressed in a small water utility rate case. As such, the Decision directs Staff to develop
21 a standard of materiality that takes into account rate impacts. The Work Group developed the
22 following materiality guidance for the Commission's review and consideration.

23 *Materiality Guidelines:*

24 48. As trained accountants and auditors, Staff members have an academic understanding of
25 "materiality." What is deemed to be material in one set of circumstances may be clearly immaterial in
26 another set of circumstances. When exercising regulatory auditor discretion, Staff needs to be mindful
27 of both the big picture and of any applicable policy statements or positions of the fact finder. The
28 overriding consideration should be whether a particular data request or adjustment will materially

change the revenue requirement. The "Materiality Levels by Class" chart below provides guidance on what sort of data requests and adjustments are appropriate in different circumstances.

49. Staff is expected to think and utilize reason in applying these materiality guidelines and in reaching recommendations. However, there are four general guidelines that should be specifically applied and followed when assessing materiality and when developing recommendations. These four general guidelines are discussed below. Likewise, an auditor's decision to pursue additional discovery should be undertaken only after giving specific consideration to the materiality of the issue being evaluated. That is, if the answer to a data request is not likely to materially affect the revenue requirement, then the data request should not be sent unless there is some other clearly articulated reason for needing the information.

Four General Guidelines:

- a. Always consider the magnitude of the adjustment under consideration to the big picture. Is the total underlying rate increase request only \$50,000? If so, then an adjustment of \$2,000 is probably material whereas a possible adjustment of \$500 is probably not material enough to recommend. The following table provides some specific guidance:

Material Levels by Class

	Revenue	Representative		Expense		Rate Base	
		Revenue	Expenses	Data Request Threshold	Adjustment	Data Request Threshold	Adjustment
Class C	1 to 3 Million	\$2,000,000	\$1,700,000	\$400	\$2,000	\$1,000	\$5,000
Class D	.250 to 1 Million	625,000	562,500	250	1,000	500	3,000
Class E	< 250,000	125,000	112,500	250	250	500	1,000

Data Request Threshold = Default minimum level of individual expenditures that would be reviewed, e.g. the level above which copies of invoices would be provided.

Adjustment = Default minimum amount required to recommend an adjustment to an individual account.

- b. If the adjustment under consideration is the result of a companion adjustment, then capture the smaller adjustment in order to assure consistency and completeness in Staff's overall position. For example, if Staff proposes a \$5,000 adjustment to payroll, it is likely that a companion adjustment will also be needed to applicable payroll taxes. In this instance, the accompanying adjustment may only be \$400. The amount of this

1 accompanying adjustment may be too small to consider making as a separate
2 recommendation, but it is none-the-less important to include the accompanying
3 adjustment to assure consistency and completeness in Staff's overall recommendation.
4 There is a secondary approach to these companion adjustments that warrants discussion.
5 If the companion or synchronizing secondary adjustment is truly immaterial, Staff may
6 elect to omit this secondary adjustment. Under such circumstances, it is crucial that it
7 is noted in testimony or in the Staff Report that Staff is choosing to pass on this
8 adjustment because of the immaterial magnitude of the secondary adjustment.

9 c. If the net calculable dollar value of two or more adjustments is immaterial, but the
10 individual components are by themselves material, then the size of the net value is not
11 the deciding factor. However, it is very important to make it clear in testimony or in the
12 Staff Report, that it is the Commission's consideration of the individual components
13 that is important and that focus should not be on the net dollar value of the adjustments.
14 For example, a net impact of \$300 to repairs and maintenance expense would appear to
15 be an immaterial adjustment; however, if this net value is actually composed of one
16 recommended increase of \$90,000 and a recommended decrease of \$89,700 then the
17 issues being addressed are clearly material.

18 d. Always consider -- "would a fact finder or other party (such as the Utilities Division
19 Directors, Administrative Law Judges or Commissioners) to the docket, agree that the
20 Staff decision to pursue or not pursue a recommendation in a particular area was
21 reasonable?" From a discovery perspective was the request for more support from the
22 applicant warranted from a materiality point of view? For example, would the fact finder
23 conclude that **it appears** that Staff chose to ignore possible minor adjustments only
24 when the adjustments went in the filing utility's favor? Perception of the decision and
25 actions must always be considered.

26 *Additional Ratemaking Factors Influencing Materiality Decisions:*

27 50. Staff also has a set of additional ratemaking factors that will have relevance when gauging
28 materiality.

1 *Rate Base:*

2 51. The Staff regulatory auditor should keep in mind that adjustments to a utility's rate base
3 only impact the utility's annual revenue requirement by the utility's ROR multiplied by the rate base
4 adjustment (plus income tax gross up.) For example, a rate base adjustment of \$1,000 will only change
5 revenue requirement by \$100 if the ROR is 10 percent (this example ignores possible income tax
6 considerations).

7 *Operating Income – Revenues and Expenses:*

8 52. Adjustments to revenue and expense have a dollar for dollar impact to the utility's annual
9 revenue requirement, again ignoring any income tax considerations. That is, a proposed adjustment of
10 \$1,000 to salaries expense will change the utility's annual revenue requirement by \$1,000 (up or down).

11 *Policy Considerations:*

12 53. Except in cases when the impact of an adjustment is extremely small, the auditor should
13 always capture adjustments that relate to a general Utilities Division policy.

14 *Responding to Filing Utility Proposed Adjustments:*

15 54. A filing utility often sets the materiality threshold in a case. For example, if a filing utility
16 proposes an adjustment of \$100, Staff must still evaluate this proposal. However, Staff should not feel
17 obligated to make adjustments to such a small amount even if small errors in the Company's supporting
18 calculations are found.

19 *Seek Additional Guidance When Necessary:*

20 55. If Staff has doubts whether or not to pursue an adjustment or issue discovery, due to
21 materiality, it may be best to consider just passing on the adjustment, or at least to discuss the matter
22 with a manager.

23 *Proof of Revenues:*

24 56. When it comes to ensuring that the rate design either proposed by the filing utility or by
25 Staff, in fact, generates the annual revenue target, materiality considerations must be approached
26 judiciously. While input from the Staff Manager may be needed in certain cases, Staff generally requires
27 the proof of revenues (associated with existing or proposed rate designs) to be very close to targeted
28

1 revenues. The reason for this is simple. Annual revenues recorded are a mathematical function of the
2 ACC-approved billing rates and the utility's billing determinants⁴.

3 57. Staff should give proper consideration to any reconciling evidence provided by the utility
4 (such as meter reading problems which required manual corrections to customer bills, or even possible
5 cycle billing considerations). But, generally as noted, it should be possible to reconcile a rate design to
6 within 1 percent of targeted revenues.

7 *Rate Filing Sufficiency Reviews:*

8 58. Except for materiality considerations related to Staff's proof of revenue analysis, Staff
9 should not spend time trying to work through either the reasonableness of proposed adjustments or
10 the materiality of company proposed adjustments during Staff's rate filing sufficiency reviews. The
11 focus of such reviews is on the completeness of the filing (does the rate filing meet the ACC's minimum
12 filing requirements for this utility?)

13 *Conclusion:*

14 59. Staff is to present a balanced and reasonably developed financial picture. Staff's
15 recommendations should reflect a balanced consideration of the filing and the recommendations
16 should position the filing utility where it can have a reasonable opportunity to pay its ongoing expenses
17 while also earning a reasonable rate-of-return and income.

18 60. The Work Group has recommended that the Commission adopt the Standard of
19 Materiality as put forth in the Status Report.

20 **DEFINE VIABLE AND NON-VIABLE**

21 61. Prior to implementing the Commission "Policy Regarding Direct Incentives for
22 Acquisitions" or the "Policy Regarding the Acquisition of Viable Systems", the Commission directed
23 the Work Group to define "viable" and "non-viable". The Work Group was also asked to evaluate
24 and define "a demonstrated record of acquiring and improving the service provided to the customers
25 of non-viable water systems" and couple those metrics with recommended ROE adders.
26
27

28 ⁴ Billing determinants would include the monthly number of customers and the respective monthly usage levels for each customer class.

62. To meet this mandate the industry members of the Work Group created draft documents of the definitions that served as the genesis for future revisions and guided the various meetings where these definitions were discussed. The Work Group diligently and collaboratively worked together to develop the following definitions on which all parties agree. The following information is the result of this process.

Definitions of Viable and Non-Viable Pertaining to Small Water and Wastewater Utilities:

63. The United States Environmental Protection Agency (EPA) has defined viable water systems as systems that have, "the technical, financial, and managerial capability to consistently comply with current and prospective performance requirements."⁵ The Arizona Corporation Commission used a similar definition in its Policy Statement No. 5 of Decision No. 75626, dated July 25, 2016, concerning the consolidation of small water and wastewater utilities.

A viable water and/or wastewater utility is defined as one that:

1. Maintains the managerial, technical and financial capabilities to safely and adequately operate; and
2. Is currently in compliance with all Arizona Department of Environmental Quality, Arizona Department of Water Resources, and Arizona Corporation Commission rules and orders; and
3. Will be able to meet other requisite regulatory requirements on a short and long-term basis.⁶

⁵ EPA, Methods for Assessing the Viability of Small Water Systems: A review of Current Techniques and Approaches, August, 1995. Located at: <http://nepis.epa.gov/Exe/ZyNET.exe/20001RR9.TXT?ZyActionD=ZyDocument&Client=EPA&Index=1995+Thru+1999&Docs=&Query=&Time=&EndTime=&SearchMethod=1&TocRestrict=n&Toc=&TocEntry=&QField=&QFieldYear=&QFieldMonth=&QFieldDay=&IntQFieldOp=0&ExtQFieldOp=0&XmlQuery=&File=D%3A%5Czyfiles%5CIndex%20Data%5C95thru99%5CTxt%5C00000001%5C20001RR9.txt&User=ANONYMOUS&Password=anonymous&SortMethod=h%7C-&MaximumDocuments=1&FuzzyDegree=0&ImageQuality=r75g8/r75g8/x150y150g16/i425&Display=p%7Cf&DefSeekPage=x&SearchBack=ZyActionL&Back=ZyActionS&BackDesc=Results%20page&MaximumPages=1&ZyEntry=1&SeeKPage=x&ZyPURL#>

⁶ W-00000C-16-0151, Decision No. 75626, at page 19 of Attachment No. 1, lines 6-11.

1 **A non-viable water or wastewater utility is defined as one that:**

- 2 1. Lacks and is unable to acquire the managerial, technical and/or financial
3 capabilities to safely and adequately operate; or
4 2. Is currently not in compliance or is unable to achieve compliance with Arizona
5 Department of Environmental Quality, Arizona Department of Water
6 Resources, and/or Arizona Corporation Commission rules or orders or is
7 unable to achieve such compliance without managerial, technical, or financial
8 assistance; or
9 3. Will not be able to meet other requisite regulatory requirements on a short- or
10 long-term basis.

11 64. When making the determination of viability or non-viability, the Commission will
12 consider all of the relevant circumstances of the case and will determine the question of viability or
13 non-viability based on all of the circumstances at the time of the CC&N transfer.

14 65. Non-viability in the short or long-term is different from failure where a utility has
15 deteriorated to the point where it presents a danger to public health and safety, but the same types of
16 facts may indicate a utility has become non-viable before it reaches a failed state. Dockets in which 1)
17 the ACC Staff has filed for the appointment of an interim manager and/or operator or 2) water or
18 wastewater utilities have filed for emergency rate relief, are indicative of a water or wastewater utility
19 that is susceptible to failure.

20 66. The following is not an exhaustive list, but are examples of factors that may be present
21 when a utility is non-viable. Any one of these factors, or any combination of factors could be sufficient
22 to show that a utility is non-viable.

- 23 • The utility lacks and is unable to acquire the managerial, technical and/or financial
24 capabilities to:
25 ○ Perform necessary operations and maintenance to assure an adequate, safe, and
26 permanent water supply and/or adequate, safe treatment of wastewater which
27 may include:
28 ▪ Maintaining and improving essential equipment.

- 1 ▪ Properly addressing growth in excess of the current capacity of the
- 2 utility.
- 3 ▪ Failing to properly address any needs for significant capital
- 4 improvements due to aging infrastructure and an inability to attract
- 5 investment or obtain financing for needed improvements.
- 6 ▪ Contaminants in excess of drinking water or wastewater standards.
- 7 ▪ Failure to consistently or properly perform required testing.
- 8 ▪ Failure to ensure compliance with new drinking water or wastewater
- 9 treatment standards in effect or going into effect.
- 10 ○ There is a lack of adequate staffing and/or certified operators due to the inability
- 11 of the utility to attract, hire, and retain engineers, attorneys, accountants, etc. to
- 12 properly operate the utility.
- 13 ○ A failure to file for regular rate increases and/or the inability to hire experts that
- 14 may be needed to assist with processing rate cases, that contributes to rates that
- 15 fail to cover expenses and liabilities, such as required repairs and maintenance,
- 16 or to cover debt service requirements.
- 17 ○ Is unable or unwilling to ensure adequate supply or treatment capabilities
- 18 demonstrated by:
- 19 ▪ Insufficient or lack of storage leading to water outages or repeated water
- 20 shortages.
- 21 ▪ The frequent triggering of curtailment tariffs.
- 22 ▪ The utility relying on hauling or otherwise purchasing water on an
- 23 emergency basis to meet demand.
- 24 ▪ Implementation of a moratorium on new service connections or the
- 25 inability to add new service connections due to low supplies or pressure.
- 26 ○ Issues with billing such as a failure to bill (i.e. family members, friends,
- 27 acquaintances, etc.), sporadic billing, or inaccurate billing.
- 28 ○ The utility is in bankruptcy or is considering bankruptcy.

- The owner and/or operator have walked away from the utility.
- There isn't a clear plan in place in the event of an owner passing away or becoming unable to continue running the utility.
- Inability or unwillingness to respond to complaints or requests for service.
- Is not in compliance with Arizona Department of Environmental Quality, Arizona Department of Water Resources, and/or Arizona Corporation Commission rules or orders such as:
 - Outstanding violations, a history of violations; and/or the inability or unwillingness to correct violations.
 - Existing mandates for significant capital improvements such as new treatment systems and an inability to meet the mandates.
 - Failure to obtain approvals to construct, approvals of construction, discharge authorizations or other required permits.
 - The utility is not current on sales and/or property taxes.
- Will not be able to meet other requisite regulatory requirements on a short or long-term basis:
 - The utility's Certificate of Convenience and Necessity has been revoked.
 - Accounting systems are not kept in accordance with required standards.
 - There is a failure to properly complete and/or submit annual reports to the Utilities Division.
 - Appointment of an interim manager or operator.
 - The utility has filed an application for interim rates or emergency rates.
 - The setting of adequate rates would be unduly burdensome with the existing customer base.

67. Class C, D, and E utilities have fewer customers and consequently lower revenues than Class A and B utilities do, yet they generally must meet all the same financial, managerial and technical requirements as the larger companies. As a result, Class C, D and E utilities may be particularly susceptible to being non-viable for either the short or long term.

68. A determination that a utility is non-viable shall be used only in the assessment of whether acquisition incentives are appropriate should that utility be acquired. A non-viable determination is not intended to create new compliance burdens on a utility that otherwise would not exist. The intent here is to help non-viable utilities (and their customers), not to punish these companies simply because they have been designated as non-viable.

69. The Work Group has recommended that the Commission adopt the definitions of Viability and Non-Viability as put forth in the Status Update.

Demonstrated Track Record

70. Another key factor in the acquisition process is the established demonstrated track record. While the Work Group agrees on the definitions of viable and non-viable, there are valid yet differing points of view as to whether the definition of a non-viable utility can be applied retroactively. Ultimately the Work Group agreed that this was a policy decision best left to the Commission, and presents the following two options for the Commission's consideration.

71. A demonstrated track record of acquiring and improving the service provided to customers of non-viable water systems is defined as:

Option 1 – No time restriction

A utility that has acquired multiple non-viable water and/or wastewater utilities and that has made reasonable, prudent and timely investments, which resulted in the acquired utility becoming viable. The acquiring utility shall bear the burden of demonstrating a track record. In each case, the Commission will consider all of the relevant circumstances in determining whether a track record of acquiring and improving the service provided to customers of non-viable water and/or wastewater utilities has been demonstrated.

Option 2 – Limited to acquisitions post decision

A utility that has acquired multiple non-viable water and/or wastewater utilities since the ACC issued Decision No. 75626⁷, and that has made reasonable, prudent and timely investments, which resulted in the acquired utility becoming viable. The acquiring utility

⁷ Effective date of Decision No. 75626 is July 25, 2016.

1 shall bear the burden of demonstrating a track record. In each case, the Commission will
2 consider all of the relevant circumstances in determining whether a track record of
3 acquiring and improving the service provided to customers of non-viable water and/or
4 wastewater utilities has been demonstrated.

5 72. The Work Group did not attempt to couple these metrics with the recommended ROE
6 adders; instead, it recommended that the chosen definition be coupled with ROE adders as part of the
7 Cost of Capital reform that the Work Group is still in the process of completing.

8 RULEMAKING

9 73. The Decision orders Staff to commence a rulemaking to consider the following
10 amendment to Arizona Administrative Code ("A.A.C.") R14-2-803.D: "A notice of intent under this
11 section is not required when the reorganization of an existing Arizona water or wastewater public utility
12 holding company is due to the purchase of the shares (or merger of) a Class D or E water or wastewater
13 utility." On August 31, 2016, Staff opened docket RU-00000A-16-0300, to initiate the process.

14 STATUS SUMMARY

15 74. Following are recommendations:

- 16 1. Staff should be directed to post the Emergency Rate Case Application (set forth
17 in Attachment A) on the Commission's website to make it available for use by
18 utilities. Staff should also be directed to continue to look for ways of improving
19 the efficiency of the emergency surcharge process.
- 20 2. Staff should be directed to post the Short Form Rate Case Application (as
21 discussed in this report) on the Commission's website to make it available for
22 use by utilities. Staff should also be directed to continue to look for ways of
23 improving the Short Form Rate Case Application.
- 24 3. The Commission could adopt the "Materiality Guidelines" and the definitions
25 of "viable" and "non-viable", as set forth herein, as Commission policies in
26 order to provide guidance to Staff and to stakeholders.
- 27 4. As discussed on pages 18-19, the Commission should determine which of the
28 two options for the definition of "demonstrated track record" it prefers, and

should then adopt that choice as a Commission policy in order to provide guidance to Staff and to stakeholders.

75. Regarding the proposed definitions for "Demonstrated Track Record," we adopt the _____ option as our policy on this issue. Although both options have their respective merits, we believe that the _____ proposed option best reflects our objectives as set forth in Decision No. 75626.

76. Under the guidance of Decision No. 75626, the Work Group has taken steps to define, refine, propose, and implement actions which will significantly improve the regulatory process surrounding small water companies in Arizona. The Work Group should continue forward with making improvements.

CONCLUSIONS OF LAW

1) The Commission has jurisdiction over the matters discussed herein pursuant to Article XV of the Arizona Constitution and Title 40 of the Arizona Revised Statutes.

2) The recommendations set forth in Finding of Fact no. 74 are reasonable, and we adopt them.

3) The Commission, having reviewed the Status Update dated September 1, 2016, concludes that it is in the public interest to adopt the policies as discussed herein.

4) We adopt Findings of Fact nos. 48 through 60 as our policy statement regarding "Materiality Guidelines."

5) We adopt Findings of Fact nos. 63 through 68 as our policy statement regarding the definitions of “viable” and “non-viable.”

6) We adopt Findings of Fact nos. 70 through 72, and 75 as our policy statement regarding the definition of "Demonstrated Track Record."

7) Our policy statements, as discussed herein, are intended to provide helpful information and guidance to Staff and stakeholders, and are not intended as generally applicable requirements.

...

...

ORDER

IT IS THEREFORE ORDERED that Staff shall post the Emergency Rate Case Application (set forth in Attachment A to the Status Update) on the Commission's website to make it available for use by utilities.

IT IS FURTHER ORDERED that Staff shall continue to look for ways to improve the efficiency of the emergency surcharge process.

IT IS FURTHER ORDERED that Staff shall post the Short Form Rate Case Application (as discussed in this report) on the Commission's website to make it available for use by utilities.

IT IS FURTHER ORDERED that Staff shall continue to look for ways to improve the Short Form Rate Case Application process.

IT IS FURTHER ORDERED that the "Materiality Guidelines", as set forth herein, is adopted as a Commission policy.

IT IS FURTHER ORDERED that the definitions of "viable" and "non-viable", as set forth herein, is adopted as a Commission policy.

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1 IT IS FURTHER ORDERED that the definition of "demonstrated track record" as set forth
2 in Findings of Fact nos. 70 through 72 and 75 is adopted as a Commission policy.

3 IT IS FURTHER ORDERED that this Order shall become effective immediately.

4
5
6 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

7
8 _____
CHAIRMAN LITTLE

COMMISSIONER STUMP

9
10
11 _____
COMMISSIONER FORESE

COMMISSIONER TOBIN

COMMISSIONER BURNS

12
13 IN WITNESS WHEREOF, I, JODI JERICH, Executive
14 Director of the Arizona Corporation Commission, have
15 hereunto, set my hand and caused the official seal of this
16 Commission to be affixed at the Capitol, in the City of Phoenix,
17 this _____ day of _____, 2016.

18 _____
JODI JERICH
EXECUTIVE DIRECTOR

19
20 DISSENT: _____

21
22 DISSENT: _____

23 TMB:BB:nr/RRM
24
25
26
27
28

SERVICE LIST FOR: Arizona Corporation Commission – Generic Investigation
DOCKET NO. W-00000C-16-0151

1	Bill McCabe	Steven Hirsch	Jeffrey Crockett
2	Picacho Peak Water Company	Quarles & Brady, LLP	Crockett Law Group PLLC
3	28784 Stonehenge Drive	Two North Central Avenue, Suite	1702 E. Highland Avenue, Suite 204
4	Chesterfield Michigan 48047	2200	Phoenix Arizona 85016
5	Steve McAdams	One Renaissance Square	Robert J. Metli
6	McAdams Water Company	Phoenix Arizona 85004	Munger Chadwick, Plc
7	10434 230th Street	Ray Jones	2398 E. Camelback Rd., Ste. 240
8	Delta Iowa 52550	WUAA	Phoenix Arizona 85016
9	Ron Bunce	916 West Adams, Suite 3	Charles Civer
10	Equity Lifestyle Properties, Inc.	Phoenix Arizona 85007	Lake Pleasant Sewer Company
11	Two North Riverside Plaza, Suite 800	Sandy Sutton	2390 East Camelback Road,
12	Chicago Illinois 60606	WIFA	Suite 310
13	Blaine Bilderback	1110 West Washington Street, Suite	Phoenix Arizona 85016
14	Aubrey Water Company	290	Garry D Hays
15	P.O. Box 961050	Phoenix Arizona 85007	Law Offices of Garry D. Hays, Pc
16	Ft. Worth Texas 76161	Greg Patterson	2198 East Camelback Road, Suite 305
17	Jason Williamson	Munger Chadwick	Phoenix Arizona 85016
18	Pivotal Companies	916 W. Adams Suite 3	Charles Keating
19	7581 East Academy Blvd.	Phoenix Arizona 85007	Valley View Water Company
20	Denver Colorado 80230	Daniel Pozefsky	2930 East Elm Street
21	Cynthia S. Campbell	RUCO	Phoenix Arizona 85016
22	200 W. Washington, Ste. 1300	1110 West Washington, Suite 220	Scott Gray
23	Phoenix Arizona 85003-1611	Phoenix Arizona 85007	Diversified Water Utilities, Inc.
24	Steve Wene	Stanley Miller	4700 East Thomas Road, Suite 203
25	Moyes Sellers & Hendricks, Ltd	Lagoon Estates Water Company	Phoenix Arizona 85018
26	1850 N. Central Ave, 1100	2600 North 44th Street, Suite 203	Michele Van Quathem
27	Phoenix Arizona 85004	Phoenix Arizona 85008	Law Offices of Michele Van
28	Cynthia Zwick	P. Stanley Reed	Quathem, PLLC
29	Arizona Community Action	Wickenburg Ranch Water, LLC	7600 N 15th St, Suite 150-30
30	Association	PO Box 16460	Phoenix Arizona 85020
31	2700 N. Third St. - 3040	Phoenix Arizona 85011	Jay L. Shapiro
32	Phoenix Arizona 85004	Susan Stroud	Shapiro Law Firm, P.C
33	Jim West	High Country Pines Water Company,	1819 E. Morten Avenue, Suite 280
34	Acme Water, LLC	Inc.	Phoenix Arizona 85020
35	365 East Coronado Road, Suite 200	6033 North 4th Place	Sheryl L. Hubbard
36	Phoenix Arizona 85004	Phoenix Arizona 85012	EPCOR Water Arizona, Inc.
37	Thomas H. Campbell	Paul Walker	2355 W. Pinnacle Peak Rd. - 300
38	Michael Hallam	Insight Consulting, LLC	Phoenix Arizona 85027
39	Lewis Roca Rothgerber, Christie, LLP	330 East Thomas Road	Ron Fleming
40	201 East Washington Street,	Phoenix Arizona 85012	Global Water Resources, Inc.
41	Suite 1200	Leonard Mardian	21410 N. 19th Ave., Suite 220
42	Phoenix Arizona 85004	Double Diamond Utilities, Inc.	Phoenix Arizona 85027
43	Timothy J. Sabo	3636 North Central Avenue, Suite 700	Craig A. Marks
44	Snell & Wilmer, LLP	Phoenix Arizona 85012	Craig A. Marks, Plc
45	One Arizona Center	Barbara Dunlap	10645 N. Tatum Blvd.
46	400 East Van Buren Street, Suite 1900	Hillcrest Water Company	Suite 200-676
47	Phoenix Arizona 85004	915 E. Bethany Home Rd.	Phoenix Arizona 85028
48		Phoenix Arizona 85014	

1	William M. Garfield Arizona Water Company P.O. Box 29006 Phoenix Arizona 85038	Broc C. Hiatt Spring Branch Water Company, Inc. 1223 S. Clearview Ave., Ste. 103 Mesa Arizona 85209	George H. Johnson Johnson Utilities, LLC 5230 E. Shea Blvd. - 200 Scottsdale Arizona 85254
2			
3	E. Robert Spear Arizona Water Company Post Office Box 29006 Phoenix Arizona 85038-9006	William H. Johnston 6139 East Hermosa Vista Drive Mesa Arizona 85215	Jon P. Coulter Woodruff Water Company, Inc. 17207 N. Perimeter Dr. - 200 Scottsdale Arizona 85255
4			
5	Carol Gonzalez Gonzalez Utility Services, LLC PO Box 86205 Phoenix Arizona 85080	James C. Rea Tonto Creek Water Company, LLC PO Box 13993 Mesa Arizona 85216	Kathleen Day Orange Grove Water Company, Inc. PO Box 889 Yuma Arizona 85258
6			
7	Richard L. Darnall Peoples Valley Water Company PO Box 88006 Phoenix Arizona 85080	Judy Lopez Beardsley Water Company, Inc. PO Box 1020 Apache Junction Arizona 85217	Steve Anderson Oatman Water Company L.L.C. 9184 N. 81st Street Scottsdale Arizona 85258-0000
8			
9	Phil Auernheimer Winchester Water Company, LLC PO Box 86453 Phoenix Arizona 85080	Michael Saunders Francisco Grande Utility Company 26000 Gila Bend Highway Casa Grande Arizona 85222	James Thomson Rio Verde Utilities, Inc. 25609 Danny Lane, Ste. 1 Rio Verde Arizona 85263
10			
11	Robert J. McKenzie 41633 N. Panther Creek Trail Anthem Arizona 85086	Steve Soriano Robson Companies 9532 E. Riggs Rd. Sun Lakes Arizona 85248	Michael Suggs Sterling Water Company 12438 North Saguardo Boulevard, Suite 114 Fountain Hills Arizona 85268
12			
13	Horst Kraus Kraus Investments L.C Dba Shangri-La Ranch 44444 North Shangri La Lane New River Arizona 85087	Norm Baker AVM-2005, LLC 6263 North Scottsdale Road, Suite 265 Scottsdale Arizona 85250	V. David Arthur White Hills Water Co., Inc. P.O. Box 30626 Mesa Arizona 85275
14			
15	Randy Sosin Oak Creek Utility Corporation PO Box 1020 Apache Junction Arizona 85117	Beth Wand Great Prairie Oasis LLC Dba Sunland Water Company 7502 East Hazelwood Street Scottsdale Arizona 85251	Don Ross Berneil Water Company PO Box 219 Tempe Arizona 85280
16			
17	Robert Gordon Casa Grande South Water Company 117 E. Second St. Casa Grande Arizona 85122	Judith M. Dworkin 4250 N. Drinkwater Blvd., Fourth Floor Scottsdale Arizona 85251-3693	Jon Cheney White Mountain Water Company PO Box 24204 Tempe Arizona 85285
18			
19	Jim L. Harris Sun Valley Farms Unit IV Water Company, Inc. 3698 E. Hash Knife Draw Rd. San Tan Valley Arizona 85140	Andrew Miller 6401 E. Lincoln Drive Paradise Valley Arizona 85253	Roger Wagner Coldwater Canyon Water Company P.O. Box 637 Black Canyon City Arizona 85324
20			
21	Ed Kiley Picacho Water Improvement Corporation 6240 East Monitor Picacho Arizona 85141	John D. Ratliff Joshua Valley Utility Company 5219 N. Casa Blanca Dr., No. 55 Paradise Valley Arizona 85253	JJ Guerin Clearwater Utilities Co. 20441 West Cheyenne Road Buckeye Arizona 85326
22			
23	Lonnie C. McCleave Utility Source, LLC 20525 E. Chandler Heights Rd. Queen Creek Arizona 85142	William F. Bennett Paradise Valley Country Club 7101 N. Tatum Boulevard Paradise Valley Arizona 85253	Doug Crowl Grandview Water Company, Inc. 11632 South 194th Drive Buckeye Arizona 85326
24			
25	Roger C Decker Udall Shumway Plc 1128 N. Alma School Rd, Ste 101 Mesa Arizona 85201	Patrick Quinn Quinn and Associates, LLC Arizona Utility Ratepayer Alliance 5521 E. Cholla St. Scottsdale Arizona 85254	Jerry M. Graham South Rainbow Water Coop. 27205 South 170th Avenue Buckeye Arizona 85326
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28			

1	David Grundy Cibola Mutual Water Company, Inc. R.R. 2 Box 77 5948 Levee Road Cibola Arizona 85328	Michael A Glover Q Mountain Mobile Home Park P.O. Box 4930 Quartzite Arizona 85359	W.R. Hansen President, Property Owners and Residents Assoc. 13815 W. Camino del Sol Sun City West Arizona 85375
2			
3	Linda Stevens Dateland Public Service Co, Inc. PO Box 3011 Dateland Arizona 85333	Stan Kephart Yarnell Water Improvement Association PO Box 727 Yarnell Arizona 85362	Albert E. Gervenack 14751 W. Buttonwood Drive Sun City West Arizona 85375
4			
5	Dennis Price Ehrenberg Improvement Association PO Box 50 Ehrenberg Arizona 85334	Bruce Jacobson Q Mountain Water Inc. 1334 South 5th Avenue Yuma Arizona 85364	Frederick G. Botha 23024 N. Giovota Drive Sun City West Arizona 85375
6			
7			Steve Jennings AARP 16165 N. 83rd Ave., Ste. 201 Peoria Arizona 85382
8	David Schofield Adamant Mutual Water Company 16251 West Glendale Ave. Litchfield Park Arizona 85340	Charles Bush Fisher's Landing Water & Sewer Works, LLC P.O. Box 72188 Yuma Arizona 85365	Bob Fletcher New River Utility Company, Inc. 7939 West Deer Valley Road Peoria Arizona 85382
9			
10	Robert Prince Tierra Buena Water Company 12540 West Bethany Home Road Litchfield Park Arizona 85340	Laura Guth Martinez Lake Sewer Company 10430 North Martinez Lake Yuma Arizona 85365	Steven D. Campbell Sunrise Water Co. And West End Water Co. 9098 West Pinnacle Peak Road Peoria Arizona 85383
11			
12	Debra Kilgore Cienega Water Company P.O. Box 3518 Parker Arizona 85344	Nancy Miller SUNSTATE 4743 E. 30th Pl. Yuma Arizona 85366	Ginny Lowe Woody's Enterprises, Ltd. DBA Ho-Tye Water Company 580 W. Wickenburg Way Wickenburg Arizona 85390
13			
14	Troy L. Scott Harrisburg Utility Company, Inc. PO Box 905 Salome Arizona 85348	Diana Crites Sun Leisure Estates Utilities Co., Inc. PO Box 1074 Yuma Arizona 85366	Dallas C. Grant, Jr. Caballeros Water Company, Inc. 1551 South Vulture Mine Road Wickenburg Arizona 85390
15			
16	Jimmy Deere Gadsden Shores Water Company, Inc. PO Box 519 Somerton Arizona 85350	Paula Capestro Far West Water & Sewer, Inc. 13157 E 44th Street Yuma Arizona 85367	Greg Sorenson Liberty Water Company 12725 W. Indian School Rd. Suite D- 101 Avondale Arizona 85392
17			
18	Jim Stark Sun City Home Owners Association 10401 West Coggins Drive Sun City Arizona 85351	Victoria Bonnet Aguila Water Services, Inc. PO Box 1086 Sun City Arizona 85372	Karen A Samuel Bidegain Water Company 247 South Hill Street Globe Arizona 85501
19			
20	Greg Eisert Sun City Home Owners Association 10401 W. Coggins Drive Sun City Arizona 85351	Francis A. Noe Cross River Homeowners Association 11756 W. Daley Lane Sun City Arizona 85373	Marla Wilkerson Verde Lee Water Co., Inc. PO Box 1322 Clifton Arizona 85533
21			
22	Susan Haas Eagletail Water Company, LLC P.O. Box 157 Tonopah Arizona 85354	Karen D. Proctor 11716 W. Villa Chula Court Sun City Arizona 85375	Sebrina Davis Eden Water Company, Inc. 9488 N Hot Springs Rd Eden Arizona 85535
23			
24	Robert Chris Rockwell Mohawk Utility Company 36140 Antelope Drive Wellton Arizona 85356	Douglas Edwards 13517 W. Sola Sun City West Arizona 85375	
25			
26	Tristan Wright Antelope Water Company PO Box 843 Wellton Arizona 85356	Regina Shanney-Saborsky c/o Corte Bella Country Club HOA 22155 North Mission Drive Sun City West Arizona 85375	
27			
28			

1	Ruel Rogers The Morenci Water and Electric Company	Gail Spain Parker Springs Water Company 7947 S. Coronado Trail HC1 Box 474 Elgin Arizona 85611	Lawrence V. Robertson, Jr. PO Box 1448 Tubac Arizona 85646
2	P.O. Box 68 Morenci Arizona 85540		
3	Roy Archer Morenci Water and Electric Company Ajo Improvement Company P.O. Box 68 Morenci Arizona 85540	Arturo R. Gabaldon, CPA - General Mgr. Community Water Co. Of Green Valley 1501 South La Canada Green Valley Arizona 85614	James Patterson Santa Cruz Valley Citizens Council PO Box 1501 Tubac Arizona 85646
4			Juanita Carbajal P.O. Box 668 Rillito Arizona 85654
5			
6	Jeffrey T. Daniels Tonto Village Water Co., Inc. and Utility Systems, 173 South Blackfoot Road - Colcord Estates HC 2 Box 164-H Payson Arizona 85541	Amie Sulger Heart Cab Co., Inc. Dba Sulger Water Company #2 2567 North Calle Segundo Huachuca Arizona 85616	Neil Petersen Mcneal Water Company PO Box 12776 Fort Huachuca Arizona 85670
7			
8			Karen Hartwell Rincon Water Company HC #70 Box 3601 Sahuarita Arizona 85692
9	Ken Nagy Bonita Creek Land & Homeowners Association 251 Big Al's Run Payson Arizona 85541	Gary Brasher Rose Valley Water Company, Inc. PO Box 1444 Green Valley Arizona 85622	Rhonda Mallis Rosenbaum Ray Water Company 414 North Court Avenue Tucson Arizona 85701
10			
11		Narvol D. Bales Wayward Wind's 5416 E. Hwy 181 Pearce Arizona 85625	Robert J. Canfield Lazy C Water Service P.O. BOX 1 Tucson Arizona 85702
12	Kirk Gray Graham County Utilities, Inc. P.O. Drawer B Pima Arizona 85543		
13		Omar Mejia Las Quintas Serenas Water Company Post Office Box 68 Sahuarita Arizona 85629	Jody Carlson Los Cerros Water Company, Inc. 4003 North Flowing Wells Road Suite 111 Tucson Arizona 85705
14	Michael Leach Roosevelt Lake Resort, Inc. PO Box 695 Roosevelt Arizona 85545		
15		Matthew Bailey Farmers Water Company PO Box 7 Sahuarita Arizona 85629	
16	Evelyn R. Thorne Kohl's Ranch Water Company, Inc. PO Box 206 Payson Arizona 85547		Christopher Volpe Vail Water Company 1010 N. Finance Center Dr., Ste 200 Tucson Arizona 85710
17		Andrew Stokes Cloud Nine Water Company, Inc. 96 Bel Aire Place, Suite 140 Sierra Vista Arizona 85635	
18	Bevan Barney Loma Linda Water Company PO Box 967 Thatcher Arizona 85552		Marian Homiak Sahuarita Water Company, LLC 4549 E. Fort Lowell Rd. Tucson Arizona 85712
19		Rick Coffman Pueblo Del Sol Water Company 4226 Avenida Cochise Street, Ste. 13 Sierra Vista Arizona 85635	
20	Patti Jent Arivaca Townsite Cooperative Water Company, Inc. P.O. Box 398 Arivaca Arizona 85601		James Vermilyea Empirita Water Company, Inc. 2850 East Skyline Dr. STE 100 Tucson Arizona 85716
21		Carol E. Cowan Holiday Water Company P.O. Box 309 Tombstone Arizona 85638	
22	Vernon Cardwell C-D Oasis Water Company 1665 10th Street Douglas Arizona 85607		Mark Weinburg Red Rock Utilities, LLC 2200 East River Road, Suite 115 Tucson Arizona 85718
23		Richard Lockwood Baca Float Water Company PO Box 1536 Tubac Arizona 85646	
24	Alfredo Rubio Monte Vista Water Co., LLC 4762 North Rustler Place Douglas Arizona 85607		Daniel O'Connell Tortolita Water Co., Inc. 3573 East Sunrise Drive, Suite 133 Tucson Arizona 85718
25		Marshall Magruder P.O. Box 1267 Tubac, Arizona 85646	
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1	Rudolf H. Barsotti Halcyon Acres Water Users Association, Inc. PO Box 18448 Tucson Arizona 85731	Nathan Castillo Pinecrest Water Company, Inc. PO Box 97 Nutrioso Arizona 85932	Scott I. Gold FLAGSTAFF RANCH WATER CO., INC. P.O. Box 38012 Mormon Lake Arizona 86038
2			
3	Tierra Linda Water Company, Inc. PO Box 14858 Tucson Arizona 85732	Paul Juhl Southwestern Utility Management P.O. Box 364 Overgaard Arizona 85933	Terry Theken Greenhaven Sewer Company, Inc P.O. Box 5122 Page Arizona 86040
4			
5	Viva Development Corporation PO Box 12863 Tucson Arizona 85732	Vera Hendrix Ponderosa Utility Corporation 949 Osage Street Flagstaff Arizona 86001	Sam Dubois WALDEN MEADOWS COMMUNITY CO-OP 9325 Donegal Dr., Ste. A Wilhoit Arizona 86223
6			
7	Lisa Sullivan P. O. Box 14858 Tucson Arizona 85732	William Lesko Heckethorn Water Company 4400 E. Button Lane Flagstaff Arizona 86001	Charles Horsley GRANITE DELLS WATER CO. 3025 North State Route 89 Prescott Arizona 86301
8			
9	Janice E. Worden & Lawrence A. Worden dba Worden Water Company 15150 W. Ajo Way, Ste. 568 Tucson Arizona 85735	Allen Ginsberg West Village Water Company 1120 W. University Ave., Ste. 200 Flagstaff Arizona 86001	Kal Miller GROOM CREEK WATER USERS ASSOCIATION P.O. Box 3897 Prescott Arizona 86302
10			
11	Mike Gallego Cactus-Stellar Limited HCR 2, Box 469 Tucson Arizona 85735	Patricia Ashbrook Forest Highlands Water Company 2425 William Palmer Flagstaff Arizona 86001	ICR Water Users Association, Inc. PO Box 2344 Prescott Arizona 86302-2344
12			
13	Scott Wootton Desert Valencia Water, Inc. 10826 N. Sand Canyon Pl. Oro Valley Arizona 85737	Peter Reznick Mountain Dell Water, Inc. 1492 W. Palmer Ave. Flagstaff Arizona 86001	Terry Hill Sherman Pines Homeowners Association, Inc. 1203 East Pine Ridge Drive Prescott Arizona 86303
14			
15	Christopher W. Hill Twin Hawks Utility, Inc. PO Box 70022 Tucson Arizona 85737	Klaudia Ness Bellemont Water COMPANY P.O. Box 31176 Flagstaff Arizona 86003	Cindy Leath White Horse Ranch Owners Association, Inc. PO Box 10000 Prescott Arizona 86304
16			
17	Kevin Tarbox Willow Springs Utility, LLC 3275 West Inna Road, Ste. 275 Tucson Arizona 85741	Bill Linville Doney Park Water 5290 East Northgate Loop Flagstaff Arizona 86004	Don Bohler Bradshaw Water Company PO Box 12758 Prescott Arizona 86304
18			
19	Albert Lannon Rancho Del Conejo Community Water CO-OP, Inc. 13130 West Rudasill Rd Tucson Arizona 85743	Chris Brainard Tusayan Water Development Association, Inc. P.O. Box 520 Grand Canyon Arizona 86023	Julie Baker Loma Estates Water Co., LLC 11620 Bella Sierra Trail Prescott Arizona 86305
20			
21	Cathy Kuefler Avra Water Co-Op, Inc. 11821 West Picture Rocks Road Tucson Arizona 85743	John Rueter HYDRO-RESOURCES, INC. P.O. Box 3246 549 Camper Village Grand Canyon Arizona 86023	Wyman Shepherd 11301 East Indigo Road Prescott Arizona 86315
22			
23	Tom Lord PO Box 3048 Show Low Arizona 85902	Brent Mullen TALL PINES ESTATES WATER & IMPROVEMENT HC 31 Box 25 Mormon Lake Arizona 86038	Lewis Hume Ash Fork Development Assoc. Inc. PO Box 436 Ash Fork Arizona 86320
24			
25	Rick Kautz Livco Sewer Company PO Box 659 Concho Arizona 85924		
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1	Dugan McDonald Lake Verde Water Company, Inc. P.O. Box 2777 Camp Verde Arizona 86322	Jack Seeley Oak Creek Water Co., No. 1 90 Oak Creek Boulevard Sedona Arizona 86336	Tom Stoddard Virgin Mountain Utilities Company, Inc. P.O. Box 668 Littlefield Arizona 86432
2			
3	Stanley Bullard Camp Verde Water System, Inc. PO Box 340 Camp Verde Arizona 86322	Wendy Ferguson Michael's Ranch Water Users' Association 1 Michael's Ranch Drive Sedona Arizona 86336	Patti Wynn Ds Water Company PO Box 786 Desert Springs Arizona 86432
4			
5	Dane Bullard dba Verde West Irrigation PO Box 744 Camp Verde Arizona 86322	Edward Elliott Stoneman Lake Water Company, Inc. PO Box 10061 Sedona Arizona 86339	G. Robert Frisby Beaver Dam Water Company, Inc. PO Box 550 Littlefield Arizona 86432
6			
7	Alan Williams Verde Lakes Water Corporation 2867 S. Verde Lakes Dr., Suite B Camp Verde Arizona 86322	Timothy L. Kylo Kyllo Development Corp Dba Bradshaw Mountain view Water Company P.O. Box 10593 Sedona Arizona 86339	Gary Biasi Biasi Water Company, Inc. PO Box 518 Beaver Dam Arizona 86432
8			
9	Arden W. Barney Granite Mountain Water Company, Inc. P.O. Box 350 Chino Valley Arizona 86323	Steven Gudovic Big Park Water Company 45 Castle Rock Rd., Ste. 4 Sedona Arizona 86351	Terry Williamson Grand Canyon Caverns and Inn, LLC PO Box 180 Peach Springs Arizona 86434 Linda Wayland
10			
11	Joseph Cordovana Appaloosa Water Company PO Box 3150 Chino Valley Arizona 86323	Lance Wischmeier Pine Valley Water Company 480 Raintree Road Sedona Arizona 86351	GOLDEN SHORES WATER COMPANY, INC. PO Box 37 Topock Arizona 86436
12			
13	Robert Busch Granite Oaks Water Users Association, Inc. PO Box 4947 Chino Valley Arizona 86323	Scott R. Dunton Walnut Creek Water Co., Inc. 119 East Andy Devine Avenue Kingman Arizona 86401	Jimmy Lee Todd Yucca Water Association, Inc. PO Box 575, Frontage Road Yucca Arizona 86438
14			
15	William E. Jackson Jr. Oak Creek Public Service, LLC PO Box 103 Cornville Arizona 86325	Rick Neal Cerbat Water Company 7313 E. Concho Dr., Ste. B Kingman Arizona 86401	Joseph Duarte Mount Tipton Water Co., Inc. PO Box 38 Dolan Springs Arizona 86441
16			
17	Kevan Larson Abra Water Company, Inc. P.O. Box 515 Paulden Arizona 86334	Todd Bremner Double R. Water Distributors, Inc. 500 Lake Havasu Avenue North Ste C100 Lake Havasu City Arizona 86403	Amanda McCord Fort Mohave Tribal Utilities Authority Attn: Virginia Tasker PO Box 5559 Mohave Valley Arizona 86446
18			
19	Patricia D Olsen Montezuma Rimrock Water Co. 3031 East Beaver Creek Road Rimrock Arizona 86335	Bobbie L. Wood Valley Pioneer's Water Company, Inc. 5998 West Chino Drive Golden Valley Arizona 86413	David Rall Sunrise Utilities, LLC 190 East Mesquite Boulv, Unit A Mesquite Nevada 89027
20			
21	Susanne Knight Boynton Canyon Enchantment HOA Association Water Utility Company 525 Boynton Canyon Road Sedona Arizona 86336	Delman E. Eastes 2042 E. Sandtrap Lane Fort Mohave Arizona 86426	Wendy Barnett Bermuda Water Company 1240 East State Street, Suite 115 Pahrump Nevada 89048
22			
23	Heather Pugsley Steven Canyons Water Treatment Company 755 Golf Club Way Sedona Arizona 86336	Rafe Cohen Sunrise Vistas Utilities Company P.O. Box 8555 Ft. Mohave Arizona 86427	Judi Schuetz Katherine Resort Water Company 7885 Quince Street La Mesa California 91941
24			
25			
26			
27			
28			Bradley J. Herrema 21 East Carrillo Street Santa Barbara California 93101

1 Robert T. Hardcastle
Brooke Water, LLC
2 Circle City Water Company, LLC
P.O. Box 82218
3 Bakersfield California 93380-2218

4 Ben Thomas
Dateland Water LLC
P.O. Box 98
5 Anacortes Washington 98221

6 Thomas Broderick
Arizona Corporation Commission
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rmitchell@azcc.gov
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9 **Consented to Service by Email**

10 Janice Alward
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COMMISSION
11 1200 W. Washington
Phoenix Arizona 85007

12 Dwight Nodes
Arizona Corporation Commission
13 1200 W. Washington
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14 HearingDivision@azcc.gov
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